COUNCIL OF THE CITY OF PHILADELPHIA
PUBLIC HEARING
BEFORE THE COMMITTEE OF THE WHOLE

\- - -
Tuesday, 2/12/02
10:15 a.m.
Room 400, City Hall
Philadelphia, PA
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RES. 010700 - Authorizing the Committee of the Whole to hold hearings on the findings and recommendations of the City Controller's November 2001 Tax Structure Analysis report; and further authorizing the Committee to seek advice and recommendations on tax policy and tax reform from citizens, financial experts, economists, academia, business executives, and state legislative and executive branch officials.

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COUNCIL PRESIDENT VERNA: Good morning, everyone. This is a public hearing of the Committee of the Whole regarding Resolution No. 010700. I would ask Mr. McPherson the please read the title of the resolution.

MR. MCPHERSON: Resolution 010700, authorizing the Committee of the Whole to hold hearings on the findings and recommendations of the City Controller's November 2001 Tax Structure Analysis report; and further authorizing the Committee to seek advice and recommendations on tax policy and tax reform from citizens, financial experts, economists, academia, business executives, and state legislative and executive branch officials.

(Witness comes forward.)

COUNCIL PRESIDENT VERNA: Good morning.

MR. SAIDEL: Good morning.

COUNCIL PRESIDENT VERNA: Please identify yourself for the record. and proceed with your testimony.

MR. SAIDEL: Good morning, Madam President, Jonathan Saidel, S-A-I-D-E-L, Controller of the City of Philadelphia.

(Applause.)

MR. SAIDEL: I come before you today to offer testimony on the findings and recommendations of my recently-released Tax Structure Analysis Report.

I applaud City Council for focusing on this important subject. Philadelphia's high tax blunts the attraction the City's assets and makes tax reduction essential. I can think of few topics more critical than the ongoing effort to make Philadelphia a preferred place to live, work, and visit.

I present for today panelists comprising neighbors, business owners, civic leaders, workers, academia, and officials from other cities:

• The first panel will discuss the general need for transform;

• A second panel will focus on the (indiscernible) that high taxes place on the City and its competitive disadvantage;

• A third panel will discuss land value taxation, how it works elsewhere, and how it would encourage development in Philadelphia.

After the presentations by the panels, my staff and I will be pleased to answer policy-related and technical questions about the report.

In general, government taxes for two reasons: To alter behavior or to raise funds for services that the private marketplace cannot provide. But taxes are so high in Philadelphia that our need to raise revenue has altered behavior. It has encouraged residents and employers to flee.

Philadelphia job growth lags behind the nation, competitive cities, and neighboring jurisdictions. More important, Philadelphia's population and job loss continued throughout 1990s. We should be growing like Boston, but we are shrinking like Detroit. These are clear signals that we must alter the local tax burden.

To reform our onerous tax structure, my office produced a Tax Structure Analysis Report. If implemented, the recommendations of the Tax Structure Analysis Report will create jobs for Philadelphians, stimulate neighborhood revitalization, put money into the pockets of residents, and improve the business outlook for employers. Without change, we will continue to transform into a city that is older, poorer, and fewer. Reducing taxes and changing our tax structure is crucial to efforts to attract employers to the City and provide jobs that will help retain working-class families.

As part of the effort to produce the report, the Controller's Office staff directed round-table discussions with business groups representing the various sectors of Philadelphia's economy. In addition, I conducted a listening tour where I heard complaints about taxes from neighbors in every corner of the City. Business owners and citizens complained about the crushing cost of taxes, said the City services were not at a high level enough to justify the high cost of staying in Philadelphia, and protested that taxes in Philadelphia are too confusing.

The City has many advantages, but the pull exerted by all that the City has to offer contrasts with the push of taxes and encourages firms and families to not locate within Philadelphia's borders. If recommendations to change how Philadelphia taxes can eliminate that push, the City will be able to better capitalize on its pull.

I am certainly not the only person to determine that the City's burdensome taxes place Philadelphia at a competitive disadvantage; I have before me a pile of reports that come to the same conclusion. Everyone in this room knows that it is true, and this is why we have to offer tax incentives to lure businesses to Philadelphia.

To improve the city's competitiveness, I offer the following major recommendations for change:

• Reduce the net income portion of the business-privilege tax from 6.5 percent to 4 percent;

• reduce the gross receipts portion of the business-privilege tax from 0.24 to 0.20 percent; and

• and eliminate the City net-profits tax.

To shift taxes from wages and encourage development, I believe we have to change property taxes in order to shift taxes from buildings to land values to discourage speculation and encourage development and reduce the wage taxes to 4 percent for City residents immediately.

• We need to reduce the wage taxes in

steps to 3.5 percent for residents and 3.375 percent for nonresidents by Fiscal Year 2007;

• we need to eliminate the need for businesses to double-pay business-privilege taxes in their second year of operations;

• we need to adopt a single-factor apportionment formula to determine business-tax liability to encourage firms to move to and remain in the City;

• we need to simplify and redesign our business-privilege tax forms;

• we need to implement a Philadelphia new-jobs tax deduction to encourage companies to create a new jobs; and

• we need to use technology and establish a taxpayer ombudsperson to improve relations with taxpayers.

The need to reduce taxes is clear, but it is equally clear that the tax cuts can improve economic conditions without threatening the City budget.

Despite growth in the U.S. economy since 1992 and in the regional economy since 1993, Philadelphia did not see job growth until 1998, after the City finally reduced taxes. Even with a cumulative 8 percent decrease in the wage-tax rate, total collections actually increased by 18.8 percent between 1995 and 2001.

The Manhattan Institute for Policy Research concluded that the tax reductions in New York City created 80,000 new jobs since 1997, or about 1 for every 4 jobs gained by that city during that period.

The current economic downturn must not provide an excuse to avoid tax reform. While in the past, Philadelphia has been the canary in the economic coal mine, the City is demonstrating remarkable stability during this recession. This places the City in fortuitous position. After past recessions, the City was unable to grow, but because the worst effects of the national downturn have bypassed Philadelphia, we can take steps now to finally enjoy the full benefits of expansion.

When I hear doubters say that they can't afford tax relief, I wonder how we were able to find money for stadiums or tax breaks for selective projects. I say it is time for tax breaks for the rest of us. Lower taxes and a less confusing tax system for the men and women who live and work and create jobs across Philadelphia.

Opponents of progress have argued that we will have to cut services to afford to implement our recommendations. They have said that the City can't afford tax reform, that tax reform may work in theory, but not here, and that the City's current economic-development strategy is working.

We all know better. Without significant changes to the tax structure, we will continue to die slowly as a city. This is unacceptable. The City continues to lag economically and lose population under the current economic-development strategy. What we are doing today is certainly not working. Experience in Philadelphia and elsewhere shows that tax reform can stimulate local economic growth. In short, the City cannot afford not to reform taxes.

Tax reform will promote economic growth; economic growth will mean more job opportunities for Philadelphians; more job opportunities will generate population growth. After decades of decline, the City will grow again. Instead of fighting over crumbs from a pie that is shrinking, we can be sharing slices of a pie that is growing.

My report identifies more than enough money to fund the tax cuts that we recommend without cutting City services. According to our analysis, the recommendations would cost approximately $629.5 million over the life of 2001 to 2006 Five-Year Plan.

To pay for tax relief, my office counts first on the fact that the City is extremely conservative in its revenue projections; second on the fact that the City places money in the budget as reserve funding that can be reprogrammed; and, third, that the City has a higher-than-anticipated fund balance; and, finally, that a significant positive economic reaction will improve job creation in Philadelphia to increase tax revenues.

In total, we identify $842.7 million to pay for the tax reform, 130 percent of the funding necessary, which provides us with a 30 percent cushion against contingencies. The Controller's Office has made hundreds of millions of dollars worth of money savings and revenue-generating recommendations as part of our financial and performance audits. With the number of City employees at its highest level in more than a connect, we can certainly do more to right-size the City government and find efficiencies.

We will meet anyone who wants to publicly debate our numbers anywhere, in any format or form, and we will go house to house and debate in the living rooms of Philadelphians if necessary, but it will show that we must, and can, accomplish tax reform in Philadelphia.

There may be alternative answers to the City's tax woes, and I encourage others to bring forth ideas for debate. While I believe the recommendations put forth in the Tax Structure Analysis Report makes sense as a package, each individual recommendation can stand on its own or in combination with any other. Enacting the entire package would be good; passing any individual recommendation would also be good.

We must, however, agree on one thing: The status quo cannot be an option. Continuing to do what we are currently doing is a recipe for the continued deadline of our great city rather. I would rather fight than stand by idly and watch Philadelphia wither on the vine.

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I call on you to draft and enact legislation to implement the recommendations of the Tax Structure Analysis Report and to pass a budget for the next fiscal year and the Five-Year Plan that incorporates these changes into projections for the future. I similarly call on you to urge the Governor of the Commonwealth of Pennsylvania and the General Assembly to implement the few actions required at the State level to accomplish these reforms.

There may be a cost to reducing taxes, but there is certainly a cost not to reducing taxes. Without significant change of the City's tax structure, Philadelphia will lag behind its competitors and population will continue to decline. By reducing the cost of living and doing business in Philadelphia and improving a tax structure that impedes growth, we can make important strides toward making Philadelphia a preferred place to live, work, and visit.

I would like to commend the Mayor for recognizing that the current tax-reduction plans are not doing enough to reverse Philadelphia's decline; I commend him for his proposal to undertake more significant tax reform in Philadelphia; however, I believe that this proposed halting of the wage-tax cuts and enhanced gross-receipts tax will not fix Philadelphia's tax problems.

First, this move will increase the City's over-reliance on wage tax and make it more difficult to significantly cut the wage tax in the future;

second, we need to be cutting taxes more, not less; and

finally, we must focus on businesses that export their services from the City. These companies are especially mobile and continue to leave Philadelphia. The gross-receipts tax is a minor burden for these companies. To attract and retain these business, we must dramatically reduce the net-income portion of the business-privilege tax and the hated wage tax.

In the end, while I appreciate the Mayor's enthusiasm for tax reform, I believe that the elimination of the ongoing wage-tax decreases and the lack of a more comprehensive tax reform makes his proposal ineffective at best; and at worse, damaging to the future of the City of Philadelphia.

Let me again thank you, Madam President, for allowing me to be here today. We have a number of highly-respected men and women to come before you in panels, not only from the world of academia but from Allentown and Harrisburg, which are a part of our Commonwealth, and we will be available, my office and I, after the presentations, to answer any and all technical questions that you have.

Thank you, Madam President.

COUNCIL PRESIDENT VERNA: Thank you very much.

(Applause.)

COUNCIL PRESIDENT VERNA: Before we call our first group of panelists, it is my understanding that Councilman Frank Rizzo would like to make a statement.

(Councilman Rizzo comes forward.)

COUNCILMAN RIZZO: Thank you, Madam Chair.

COUNCIL PRESIDENT VERNA: Good morning.

COUNCILMAN RIZZO: Good morning. Good morning, Madam Chair, members of the Committee of the Whole, and guests. I'm Councilman Frank Rizzo, and I'd look to read a few excerpts of the letters that I have sent to City Controller Jonathan Saidel regarding his Tax Structure Analysis Report.

"I commend City Controller Jonathan Saidel for the initiative that he has taken with his Tax Structure Analysis Report. I wholeheartedly agree that now is the time to explore a tax reform plan that will not only change the way we do business as a city for the better, but will also make Philadelphia more attractive for residency and business, and more competitive with the suburbs and other major cities.

"His recommendations for reduced business-privilege and wage taxes and the elimination of the nets-profits tax as well as a shift to greater reliance on the real-estate tax will certainly go a long way in helping the City of Philadelphia to reach its goals of increasing its tax bax and revenues and improving business and job opportunities in our city.

"Our current perverse tax structure serves as a disincentive for people and businesses to either remain or relocate to the City of Philadelphia. Taxes should be fair, rationally related to the purpose for which they are raised, affordable, and provide value for the money paid. By these standards, the City Controller's tax proposal will go a long way in improving our current tax structure.

"Also, from a practical and economic-efficiency standpoint, it would not only make more sense, but would also be in our competitive advantage as a city in attracting new residency and business, to shift the tax burden to the owners of real estate, because the owners of real estate are either identifiable, benefit most directly from the City services -- fire, police, sanitation services -- and have an easy reachable asset to satisfy outstanding debts owed to the City. Utilizing market forces and efficiencies, landlords will pass those burdens onto tenants. His proposal to shift more of the tax burden to the owners of real estate is not only rational, but fair.

"In the spirit of dialogue, it is a very important issue. I do have some concerns with the proposed bifurcation of the real-estate tax into a land tax and a building tax. First, taxing land at a higher rate than buildings is not fair. In this context, "fair" refers to the benefit received for taxes paid. Owners of commercial and residential structures receive more benefits again by the way of fire, police, sanitation than owners of undeveloped land. If anything, they should pay a higher tax rate, not a lower one. Though, as a matter of economy and efficiency, I would recommend a simple, single tax rate on real estate buildings and land.

"Second, there should be respect for property owners and their right to the quiet enjoyment of their property. The theory of taxing property based on its optimum use would, in effect, further infringe upon property owners' rights to use their land as they choose. Since the City would be coercing them with a higher tax rate to achieve what the City envisions is some better use of preferred use of the land. In the Controller's proposal, the City, through social engineering, would coerce the use of private property.

"Finally, the effects of a land tax would not only be pro-development but also anti-green. For example, owners of land increasingly choose to set aside some of their property as green space for such things as campuses, fields, woods, or gardens. The optimum-use land tax that has been proposed would deter land owners from using their property in such a manner. The incentives are contrary to the current trend towards creating green space. Also, the plan's incentives encourage maximizing development in the interest of maximizing revenue.

"Further, almost invariably, if you tax something, you discourage it. If the government taxes open space, it will discourage open space, which is anti-green and contrary to modern urban trends towards creating green space in an urban environment. In fact, this is contrary to the green-city strategy, which is the central part of Mayor Street's Neighborhood Transformation Initiative.

"We want appropriate density for a city. But we don't want overdevelopment. We would Encourage density in a city as a matter of economy and efficiency; but at the same time, we would remain cognizant of the need for creating urban green space."

Again, I want to thank City Controller Jonathan Saidel for the initiative that he has taken on tax reform in the City of Philadelphia. I greatly appreciate his opening the dialogue of this tax-structure issue, which is such an exciting and thoughtful tax plan. I share his vision for Philadelphia that it is attractive to and residents and competitive with the suburbs and other major cities. I look forward to working with the Controller and the Administration in the future to make this vision a reality.

Thank you, Madam Chair.

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

Would Mr. McPherson please call the first panel to the witness table.

MR. MCPHERSON: The first panel is "The Case for Tax Reform": Jonathan Saidel, Richard Voith, Anthony Campisi, Paul Tirjin, Anne Rubin, Andrew Terhune, and Allen Woodruff.

(Witnesses come forward.)

COUNCIL PRESIDENT VERNA: Good morning. Please identify yourself for the record and proceed with your testimony.

MR. VOITH: Good morning, Madam Chairwoman and members of Council. My name is Richard Voith.

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I am Senior Vice President and Principal of e-Consult Corporation, an economics-consulting firm located at 3600 Market Street in Philadelphia.

COUNCIL PRESIDENT VERNA: Excuse me, sir. Do you have copies of your testimony, by any chance?

MR. VOITH: Yes, I do.

COUNCIL PRESIDENT VERNA: Were they circulated?

MR. VOITH: No, they were not. Shall I continue?

COUNCIL PRESIDENT VERNA: Please do.

MR. VOITH: Prior to joining e-Consult last year, I was an economic advisor in the Regional Economics Group at the Federal Reserve Bank of Philadelphia. I received my Ph.D. in economics at the University of Pennsylvania, and I have been a resident of the City of Philadelphia since 1981.

I'm going to talk about the impacts of tax rates on Philadelphia's economy and on Philadelphia's tax basis, which is sometimes referred to as "supply-side effect of tax changes."

Now, the idea of a supply-side effect of changes in tax rates tends to be a polarizing one. One camp seems to believe that there are no effects of taxes on the local economy; and hence, any reduction in tax rates takes funds away from the public treasury on a dollar-for-dollar basis. Another camp seems to believe that tax cuts are a panacea and that if local government would only cut taxes, there would be so much economic growth that the government would not have any loss in revenue. As is usually the case, reality lies between the extremes.

All communities must impose taxes to generate revenue to pay for desired public services the residents in the community need. Whenever a community levies a tax, however, it can create incentives for businesses and households to avoid the tax, and at a national level, a very high marginal tax rate, it has been argued, may cause some people to work less and businesses to invest less. And at the state level, households and firms have an additional way to avoid taxes: They can move. Still, moving from state to state can be really costly for a business or a household.

But at the local level, whether a

municipal level or a county level, it's much easier for firms and households to move to avoid taxes, and the easier it is to avoid taxes, the greater the negative impact of a tax on the economic activity and the tax bases. So increases in local tax rates are likely to just generate less revenue than one might expect had there been no impact at all on the tax base through moving.

Similarly, a reduction in tax revenue will reduce tax revenues less than expected. The impact of tax rates on tax changes is what we're talking about here in terms of a supply-side effect, and is generated primarily by people's location decisions.

Philadelphia's tax rates are relatively high compared to its suburban neighbors and have put the City at a competitive disadvantage. The wage tax, for example, takes two weeks' pay from the typical wage earner in the City of Philadelphia. A person can move outside of the City and effectively earn the same income and have an extra two weeks off each year. This is a powerful reward for moving across City Line Avenue.

Philadelphia has made some progress in addressing its tax issues, and the Controller's

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proposal is another great step in the right direction, but Philadelphia's tax rates remain destructively high. There's a significant amount of economic research that suggests that reductions in rates of Philadelphia's major taxes -- wages, property, and gross receipts and net income -- will reduce City revenue on a less than dollar-for-dollar basis. In other words, the rate reductions do spur economic activity, increasing the size of the tax base, so some of the revenues associated with a tax cut are recovered through economic growth.

There remains legitimate debate, however, about just how large the supply-side effects are. In his studies on the effect of wage taxes on employment, Professor's Inman's research finds impacts that range from a relatively modest supply-side effect generating employment growth that will offset perhaps 10 percent of the revenue loss for a 1 percent cut in the wage tax rate to a large supply-side effect, implying over 50 percent recovery in revenue losses year after year.

Now, at e-Consult, we've been extending Professor Inman's pioneering research by looking at

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better, cleaner, and more data in developing a consistent methodological framework to evaluate the revenue impacts of tax changes. We are finding in our research thus far estimates that are consistent with Professor Inman's, but in general, the supply-side impacts that we are finding are in the higher range of impacts relative to Professor Inman's.

And, in addition, we have been finding its reductions in one tax -- say, the wage tax in particular -- may have important effects on other tax bases, particularly the property tax. Increases in the wage taxes have a negative effective on property values and property=tax revenues in the City of Philadelphia.

In summary, I believe that the high rate of taxation in the City of Philadelphia is probably causing significant contraction in the rate of economic activity in the City and is probably depressing property values, both commercial and residential. Our research further suggests that the wage tax is having the largest adverse effect on Philadelphia's economy; and, hence, reductions in this tax appear to have the largest gains in terms of generating private activity as well as the greatest rate of recovery of lost revenue associated with the rate cut.

The gross-receipts tax also adversely affect economic activity, but the supply-side gains associated with cutting this tax may not be as large as those associated with a cut in wage tax.

I would urge this Council to seriously consider the Controller's proposal to restructure taxes, and in general, I believe that tax-rate reduction will be beneficial to both residents and firms in the City.

Thank you very much for giving me this opportunities to present our testimony.

COUNCIL PRESIDENT VERNA: Thank you very much.

I believe Mr. Campisi is the next witness.

MR. CAMPISI: Good morning, Madam President and members of City Council.

COUNCIL PRESIDENT VERNA: Good morning.

MR. CAMPISI: My name is Tony Campisi. I serve as general manager to Midlantic Business Alliance and am an employee of the Administrators Incorporation, the association management company for the Alliance.

I thank you for this opportunity to present our views to Council.

Steven Markowitz (ph), the Administrators' Chief Executive Officer, was unable to return this week, but I do wish to present his comments that were prepared for the previous hearing.

In addition to managing Midlantic Business Alliance, our current client base includes 15 other associations and chambers of commerce for 17,000 business and more than 100,000 employees in the greater Philadelphia metropolitan area. We estimate that only 2300 of those businesses have chosen to operate in the City of Philadelphia. There is a reason for that: The tax policies of this administration repel those businesses.

At this time, while counseling hundreds of start-up businesses per year, we do not recommend the City as a cost-effective relocation alternative. We would sincerely like to do so. The adoption of the Saidel initiative could change that dramatically.

The business community, while not ready to label the current administration as "anti-business," has a strong sense that it is without direction or commitment to any meaningful plan to provide relief from a counter-productive tax agenda. The City Controller's tax plan is the first solid proactive attempt to position Philadelphia in a positive and, therefore, attractive light to current and potential businesses. We urge City Council and the Administration to adopt this plan and eliminate the perception that it is helpless in the face of continued erosion of Philadelphia's business base.

One thousand new small and microbusinesses would mean a half a billion dollars in local sales. Increasing land taxes, while reducing the gross-receipts of the business-privilege tax, would create the environment for those businesses to look at Philadelphia as viable.

The choices between contributors and producers. The Mayor's current position seems to indicate a preference for the former over the latter. If politics as usual continues, so will the flight of businesses.

A Philadelphia economy that includes many new small businesses, supplying and supporting those larger businesses that service the nation and the world can be accomplished, but those small businesses must feel that their importance is rewarded with an environment in which the cost of doing business is manageable.

Small-business entrepreneurs also comprise the group most likely to reside where they work. Social programs and business-support programs do not exist in vacuums. Strengthening the position of the entrepreneurs who will bring businesses and jobs to Philadelphia will in time support the many worthwhile efforts to address housing and other quality-of-life issues for all who live here.

That constitutes the testimony that was to be given by Steven Markowitz at the hearing scheduled for January 30th. As General Manager of Midlantic Business Alliance, I would like to add the following:

According to the United States 2000 census, there were 5.6 million employer firms in the nation. In the year 1999, the latest year for which information is available, 5 million of those firms, 90 percent of all employer firms in the United States, are very small businesses with under

20 employees. These firms represent over $2.5 trillion in sales and over $5 billion in payroll. These are the kinds of businesses that are being driven out of this city due to a tax structure that causes such migration.

As noted in the last census, the City of Philadelphia continues to shed businesses, jobs, and residents, resulting in reduced influencing clout in Harrisburg and Washington. The reversal of these long-dominant trends affecting this city begins with a tax structure that gives birth to entrepreneurship and economic development instead of discouraging these activities, which are crucial for urban renewal. The Saidel tax reform plan will lay the foundation for that rebirth.

Thank you.

COUNCIL PRESIDENT VERNA: Thank you.

Our next witness?

MR. MCPHERSON: Paul Tirjin.

MR. TIRJIN: Yes, I'm Paul Tirjin. Madam Chairman and City Council. Thank you for giving me the opportunity to be here this morning.

I am a director with the venture capital firm Burrill & Company. We invest in biotechnology and biopharmaceutical firms, and we have an office at 3701 Market Street here in Philadelphia.

For the last 15 years, I've been building health-care and life-science companies in the greater Philadelphia region, first as an entrepreneur and then as a venture capitalist. I attended high school on City Line Avenue, I went to college and graduate business school in West Philadelphia, and I chose to stay in Philadelphia throughout my career. So I don't criticize Philadelphia lightly; it's my home in the deepest sense. However, our city has been in decline for the entirety of my life, and I fear it may be in grave trouble going forward.

As you debate your options for building the economic base that supports the City of Philadelphia, please consider some of the following observations:

First, virtually every major industry that the United States has participated in was either created here or dominated by firms here and then lost to other regions. Some examples are oil, coal, steel, railroads, rail cars, banking, ship-building, shipping, textiles, jewelry, entertainment, retailing, and computers. There's little use in debating why or how we drove them out or lost them; they are gone and they're not coming back. But we must recognize the magnitude of the opportunity we missed to understand fully what we stand to lose today.

Philadelphia has been a major immigration entry point for the U.S. for centuries, the last half-century included, and our birth rates and death rates have been within national norms throughout the period, yet we have experienced dramatic population loss. Again, those people have found new homes so no sense pointing fingers, but we can't ignore this problem.

Our country has witnessed unprecedented cultural and technological change over the last half-century. Companies and workforces are mobile, and family ties no longer retain talent to a region. As a result, regions must constantly find ways to make themselves more desirable than other regions and eliminate factors that drive the employers away.

Corporations and investors in corporations have a fiduciary duty to evaluate locations based on criteria that includes the impact of local wage tax and corporate income taxes on returns to investors, as well as the recruitment and retention of their employees.

Beginning in the 1980s, Philadelphia's taxes drove a substantial portion of its highest-paid workers to the west side of City Line Avenue, and then in the 1990s, out to Radnor, Conshohocken, and the Route 202 corridor. It would have been absurd to suggest in 1980 that a forgotten, delapidated ghetto called "West Conshohocken" would become a more prestigious and thriving economic center than Philadelphia; yet this is exactly what has happened in less than 20 years.

As the economy becomes increasingly dependent on highly-paid, highly-skilled workers, the penalty for creating jobs in Philadelphia gets worse. The math is simple: At a 4 percent wage tax, every million dollars a company pays in wages costs another $40,000 in Philadelphia taxes. This tax goes away if you leave Philadelphia, freeing up $40,000 in cash for more employees, more equipment, office space, or net profit.

As the decay of abandoned portions of the City has expanded and the public schools have continued to sink so far below acceptable requirements for this new highly-skilled, highly-paid workforce, the dwindling benefits of being in a major metropolitan city have evaporated in Philadelphia into a negative.

Every day, we in the investment community must encourage the fastest-growing, best-paying employers to leave or avoid tax environments like the current one in Philadelphia. It is our fiduciary duty to pursue environments for the companies we invest in that are most fiscally advantageous to the company.

Of course, all is not lost: Philadelphia still has a legitimate chance of retaining a world-leading position in several industries. I believe that my industry, life science, is one of them. However, we don't have many chances left, so bold moves must be made. Incremental Bandaid approaches to tax reform will continue to fail, as they always have. In my industry, this failure will cause us to lose out to other emerging life-science centers around the country, such as

Research Triangle in North Carolina; San Diego, California; Seattle, Washington; or Maryland and D.C. Please don't let another industry slip away.

Thank you.

COUNCIL PRESIDENT VERNA: Thank you.

Our next witness?

MR. MCPHERSON: Anne Rubin.

COUNCIL PRESIDENT VERNA: Good morning.

MS. RUBIN: Good morning. My name is Anne Rubin. I'm here as the President of the Greater Philadelphia Association of Realtors and a partner in a company that has 11 offices in 5 counties, including Philadelphia.

The Association of Realtors supports Jonathan Saidel's Tax Structure Analysis Report. We all know that the concept of lowering tax revenues is important for our City of Philadelphia to survive, as many have spoken before me. The business-privilege tax, the wage tax, the real-estate transfer tax are luring businesses and residents out of the City. The tax structure that is in place is neither business-friendly and especially our real-estate taxes are not very equitable.

We know that the trend can't continue for Philadelphia to survive, and we believe that this tax plan that the City Controller's Office has brought forward is very forward-thinking in its approach and out-of-the-box from what Philadelphia has been doing, and we really need to take a very serious look at this analysis and seriously consider the benefits that it can bring to us.

I'd like to speak to one point that Councilman Rizzo made in regards to the green space, and it appeared clear to me in this analysis that the community gardens and parks would all be nonprofit and there would be no tax, so it does not inhibit the beauty of the green space that we want to continue to see in Philadelphia. In fact, it encourages it. So I think that there were some inaccuracies there from what I understood, to mention that.

I'll make this brief -- there's lots of people behind me, but I just wanted to reiterate that we support the efforts to implement the progressive form of taxation and commend you all for your willingness to listen and to look seriously at what we can do in the City of

Philadelphia with a plan like this.

Thank you.

COUNCIL PRESIDENT VERNA: Thank you.

Our next witness?

MR. MCPHERSON: Andrew Terhune.

MR. TERHUNE: My name is Andrew Terhune, and I'm speaking here as a citizen of Philadelphia. I also happen to work for Toll Brothers, which has an interest in Philadelphia, with a property in southwest Center City.

I'd like to say that I've read over my years many, many government and committee reports, and most of the ones I've read speak in terms of generalities and argue for solutions that at best could be described as wishful thinking or pie in the sky. I've read this report in its entirety, word for word, and if anybody here has not read this report or had their staffs read this report, I highly recommend it; it's extremely clear and very, very well-written, and it speaks to specific problems and support them with real data. And most importantly to me is that it proposes specific and workable solutions, and there are many here who are going to speak to those solutions, so I will skip that, but I do want to say that I do support the general tone of this, and I think it's something that Council should very, very seriously consider.

Now, much has been made about the Rendell Administration's turning the City finances around, and I wish to say this was no small achievement, and certainly Council had an awful large part in that. But for all it accomplished, it really just stopped the bleeding so that the patient, as it were, didn't die on the operating table. The cancer, which is Philadelphia's current, non-competitive tax structure, is still ravaging the body.

Now, my wife and I have lived in Philadelphia since 1985; that makes me sort of a newcomer amongst many of you here, but it's longer than I have lived anywhere in my life. And ever since I came here, I have read study upon study, I've seen column upon column in the Inquirer and other papers on the subject of the City's declining population and job base.

Without exception, all point to the City's noncompetitive and overly complicated tax structure -- and that's just a fancy way of saying "high taxes" -- as a key reason people choose not to live within the City limits of Philadelphia.

As an example, a colleague of mine at Toll Brothers recently relocated from the State of Colorado and rendered residence in Center City while he and his wife learned about the region and decided on where they might choose to live. A year later, he and his wife are now looking everywhere except Philadelphia, and this is largely due to the wage tax. As a well-compensated executive with one of the Delaware Valley's fastest-growing companies, he is exactly the kind of resident Philadelphia needs to attract and retain. And I'm sorry that we're not going to, it looks like.

Now, I'd also like to discuss a little bit how this is relating to the Mayor's Neighborhood Transformation Initiative. The Mayor has said and, I believe quite correctly, that we need to attract more new market-rate housing to this city, and I couldn't agree more with him. However, developers build homes where they perceive the demand is; that's why today they're building largely in the suburbs because that's where people are choosing to live.

In order to make the Mayor's vision a reality, we need to take steps to make the City a more attractive to live. If the demand is there, the developers will follow, they will build those houses.

Of all the issues that make the City less attractive than the suburbs -- and I don't want to downplay the fact that schools are an issue, we all know that -- changing the City's tax structure is the only change that the City Council can effect now for this upcoming fiscal year beginning in July. The other problems -- schools, crime, quality of life -- must be dealt with as well, but it will be years before we can feel or see the effects of these improvements. In contrast, changing the City's tax structure is something that we can do and put into effect today.

The effect of the change in these, I'm sure, will be immediate and long-lasting. When businesses, residents, and prospective residents see the City is on a course towards a new, more competitive tax structure, they will make their location and business decisions accordingly. Our job base will grow, and the City will prosper.

There is another certainty, however, and that is if we do nothing, the City's job base and population will continue its inexorable decline. Fewer residents and business will support the fixed infrastructure that we have, and cutting taxes in the future will be even more difficult than it is today.

Finally, I would like to go a little bit beyond the Controller's report and make a suggestion that, I think, will further enable the City to cut taxes as well as make the City attractive to both residents and businesses. As part of its tax reform, the City should consider consolidating the City's tax base with that of the State.

I am somebody who's fortunate enough to have to pay a number of the City taxes, and I have to do a wage-tax reconciliation form in addition to the wage tax, as my employer withholds, and I have to fill out form for School District income tax. I have to do a business-privilege tax form as an investor in the City, and that also entails my doing a net-profits tax. My wife has own business and is also required to do these forms as well.

If I were to live in the Cit of New York -- another city, as we all know, that has some tax issues -- at least I wouldn't have this problem. The City of New York consolidates its taxes with those of the state, it's one form, you fill out and send in one check, and the system is much more compact, easy to understand, and less burdensome and onerous on residents and businesses of the City.

Doing this would reduce the paperwork as well as a number of tax forms, it would make for a simpler system, it would allow the City's Revenue Department to focus an other revenue sources and possibly to downsize, further saving money, and I believe it would democratically increase compliance. These findings were backed up by a study that was done for the last administration back in 1992 but never implemented, and I would ask that Council consider those as well.

In summary, I think that the Controller and his department have done an outstanding job, producing a very readable, concise, and specific report, and I urge the Council to consider it very seriously in the upcoming fiscal year.

Thank you.

COUNCIL PRESIDENT VERNA: Thank you very much.

Our next witness?

MR. MCPHERSON; Allen Woodruff.

COUNCIL PRESIDENT VERNA: Good morning.

MR. WOODRUFF: Good morning. I run a small company up in the Port Richmond section. We build specialized textile machinery, which is sold around the world. In fact, we have one customer in the City of Philadelphia.

When it comes to the gross-receipts tax, it's essentially a non-event; we usually pay a dollar or two, or some years, we have less than a dollar and aren't required to send it in, and I think probably we cost the City money in processing this tax.

I also am chairman of an organization which represents a group of about 50 manufacturing firms in a 12 square block area called "Pride," and we're trying to improve the neighborhood in which we operate, and we've tried to attract some businesses. And, again, the wage tax proves to be the biggest impediment for people to come into the

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City to relocate. It's psychological as well as financial. I, myself, have had trouble attracting an engineer for -- who, you know, living in the suburbs, they look at it and, you know, the wage tax is a big turnoff.

I really feel that until the wage tax gets to probably about 2 percent and becomes sort of a non-issue that we're going to have that trouble and that problem, and I would urge that a lot of energy is put to seeing how the wage tax can be reduced as opposed to the gross receipts or some others. The gross receipts, while it is inequitable,and the sandwich shop where my employees buy their lunch is obviously paying far more than we are.

What you have in my firm is, we are a net importer of money into Philadelphia in that we -- well, we just sold a machine ship to South America and in came a transfer to our bank from Brazil. You know, we bring money in from across the country and around the world, and the majority of it's spent on wages and supplies and services provided here in Philadelphia and in the Delaware Valley.

So what you need to do is make it so that you can attract companies that bring money in, and you're not going to do that unless the wage tax is lower.

Thank you.

MR. MCPHERSON: Thank you.

Are there any questions?

Councilman Nutter.

COUNCILMAN NUTTER: Thank you, Mr. McPherson.

Just a quick question to the panel, but also a little bit of a comment. I know many of you were here, I think, about a week, ten days ago, and I just wanted to mention that, one, there was a hearing that had been scheduled maybe around about the same time earlier that particular day. There were a number of bills being heard that day, a couple of which were mine, and we had a few more witnesses than we anticipated. And so at least for my part, I do wish to apologize to anyone who was here at the other hearing, and directly to City Controller Saidel, for any delay that was caused as a result of a previous hearing going on. I recognize that your time is very important, and at least for my part, no disrespect was intended. There were some other education matters that we were dealing with, and I regret that we went over our time, so I did want to in a more public apologize to you for that happening.

The second thing is, I've listened to all the testimony, and I just wanted to get a better understanding of -- there are a variety of ideas out in the public about tax restructuring and tax reduction. Obviously today, we're here to listen to the Controller's proposal. There was a proposal made by the Mayor here in Council chambers during his budget address, and he talked about the need to reduce the gross-receipts tax and a proposal for next summer to cease the wage-tax reductions, and that there was contact with a variety of businesses and economists and other people around the City.

And for this particular panel and maybe some others, I just wanted to get a sense from you of: One, what was your action to that proposal; two, were any of you either consulted or surveyed or asked about that particular proposal, and; three, based on your business experience, which, while many of us have had a lot of policy experience, we may not have direct business experience, I'd like to get your reaction to any of these particular ideas as well as your suggestions.

(No immediate response from panelists.)

COUNCILMAN NUTTER: Don't everybody jump at the mic.

MS. RUBIN: The Mayor's Office did not contact the Greater Philadelphia Association of Realtors; to the best of my knowledge, the Mayor's Office did not contact any Realtors individually either to discuss this idea.

I can tell you that without touching the wage tax from a real-estate standpoint, you are not going to be able to maintain the residents. It's a combination of the taxes and the schools, and if we don't -- we -- the schools are really a long-range thing, but if we don't seriously do something with our taxes, we are continually losing. The people that are moving into the City are either those that are required to live here; you know, the ones that are coming into the City are taking jobs and being required to live here, and that pool has been reduced now with the change in the school employees. And the others are the empty-nesters who want to be in Center City, and we've seen the

Center City burst with real estate. I hope that that will last for a long time, but it's been cyclical, and we've seen this before.

But families that are in the prime of their income earnings are leaving. You know, they say that those years from 35 to 55 are the prime time that people earn their monies. Those with --

COUNCILMAN NUTTER: Is that really true?

MS. RUBIN: That they're in the prime of their earning capacity?

COUNCILMAN NUTTER: Yeah. I didn't get that memo.

(Laughter.)

MS. RUBIN: Those are the groups that are heading out, and they're heading out fast. And as doing business in real estate, I have to say that the wage tax is equally as big an issue and consideration, and transfer tax, as the schools are. People are willing to send their children to private schools if they feel the schools are inadequate, but they don't have an alternative to the taxes.

COUNCILMAN NUTTER: Okay, thank you. Appreciate that.

MR. TIRJIN: While I represent only a single venture firm, the general consensus in the venture capital community is that the wage tax is fundamental to the issue of locating a business within Philadelphia limits. With a startup corporation, especially a high-tech corporation that requires a high-salaried workforce, there's -- the impact of the wage tax is much greater, the need to conserve tax is much greater, and the decision to locate is going to be much more heavily based on that.

As soon as a company reaches eight to ten employees, we have a responsibility to encourage them to leave the City.

COUNCILMAN NUTTER: Why is that?

MR. TIRJIN: Because the same amount of money can go into more research and development, more employees, more rent, more equipment, more anything -- or more, you know, heaven forbid, more profit if they move outside of Philadelphia.

COUNCILMAN NUTTER: The last I checked, this was America.

MR. TIRJIN: Yes.

COUNCILMAN NUTTER: Do you find that you

have to pay a premium in terms of salaries to employees to compensate for the wage tax?

MR. TIRJIN: Absolutely. Well, unfortunately, there's a premium both because as to compensate for the wage tax, as well as the workforce that we're targeting doesn't want to work in Philadelphia because of other issues like the schools, like the urban bright, and so forth. So we have to pay a premium. And then on top of that, pay the wage tax, so the wage tax is compounded by the premium that we pay.

COUNCILMAN NUTTER: Thank you.

MR. VOITH: Councilman Nutter, I'd like to address this on two fronts: One as a partner in a small --

COUNCILMAN NUTTER: One, as my constituent, and two, as an economist.

MR. VOITH: Excuse me, three fronts.

COUNCILMAN NUTTER: I know that you want to address it at least on two fronts.

MR. VOITH: Three fronts -- one, as a partner in a consulting firm with about 18 people. It is very clear we're in Philadelphia because we find it has quite a few advantages to be in

Philadelphia. However, when we do hire, we do have to pay a premium to compensate for the wage tax. We are in the midst of attempting, which I think is going to fail, to hire a young person from the University of Pennsylvania. We're competing with another firm in Washington, and there is a premium that is involved simply to pay the wage tax.

So I think that Philadelphia has quite a few attractions, but the wage tax does come in the premium for salaries, and there's just no getting around that fact.

I have spent a fair amount of my previous career studying policies and how they affect patterns in metropolitan development -- I was a student of Professor Inman, who is the guru if we're talking about taxes in this area. We at e-Consult have been looking at the effects of the major taxes on their tax bases.

We have definitely found that wage taxes are a very important detriment to private economic activity. When you cut the wage tax in Philadelphia, you do regain a significant amount of the revenue back from base growth as the economy grows.

And what new information that has never been circulated before is that -- and it's preliminary, but we are finding that the wage tax affects property values and, hence, the property-tax revenues and base. Less people want to live and work here, it depresses the values of commercial properties, it depresses the values of residential properties. I think another panel member has spoken very clearly that it affects the real-estate market. So I think accumulating evidence that the wage tax is very important.

And to address the gross-receipts tax issue, the gross-receipts tax almost certainly matters, but it does not matter at the same scale that the wage tax matters. And one way to think about that fact is -- it's not exactly the same, but it's somewhat the same as the sales tax, and it's a quarter percentage point on sales taxes. It's not going to be as big an economic driver as the wage tax, which is like a huge elephant in the economy.

Thank you.

COUNCILMAN NUTTER: Thank you.

MR. WOODRUFF: I feel that, you know,

stopping the wage-tax cuts was sending the wrong message to the business community. I've been through some frustration in hiring people, and also, there was a potential a couple years ago of merging my company with another company and bringing it into the City, and one of things that that really was stumbling was that we had to retain some people -- this was a company out in Warminster -- retaining some people and, I mean, the tax, the wage tax was a big problem, was going to be a big problem.

COUNCILMAN NUTTER: Thank you.

Thank you, Madam President.

COUNCIL PRESIDENT VERNA: Thank you

The Chair recognizes Councilman Clarke.

COUNCILMAN CLARKE: Thank you, Madam Chair.

Good morning.

I, like Councilman Nutter, would like to, for those of you who were at the earlier hearing, would like to give my apology for the delay -- well, actually, the postponement of that particular hearing. I was somewhat involved in an issue that caused that to happen. So I'd like to say, on behalf of myself, I'd like to offer my apologies to anyone who was inconvenienced on that particular day.

First of all, I'd like to applaud the City Controller and all of you for being here today to bring this very important issue to the level that it should be to stimulate the discussion. Regardless where people come out on the issue, I think it's something that should be put in the forefront, and I agree, frankly speaking, with a substantial amount of what's being proposed here today, and would hope to be in a position to implement some of these very important initiatives.

But I just wanted to talk briefly just talk about that was discussed earlier by Councilman Rizzo. A part of the City of Philadelphia that I represent, unfortunately, has a lot of vacant land, to be frank with you, so the impact on the vacant land would be substantial pro and con. Councilman Rizzo, in his earlier testimony, talked about greening initiatives, open-space initiatives -- that's one of the things that we've been focusing on both from a development perspective and also as a reuse initiative for property owners who have vacant properties next to them, encouraging them to take those properties into ownership. And interesting, the information that you apparently have gotten -- ma'am, I forget your name.

MS. RUBIN: Anne Rubin

COUNCILMAN CLARKE: Miss Ruben. -- with respects to the ownership of most of these community gardens are not, in fact, community development corporations; they are, in fact, private homeowners who have taken the initiative to get these properties into their ownership for, you know, gardening or for other types of open-space uses. We've actually encouraged that through legislation that was passed a couple of years ago, the vacant lot initiative. So that will be an impact on that individual property owner.

one of the other things that I would like -- and I guess Mr. Saidel's staff should take into account, as a result of the lack of population and the declining population over the years, particularly in the affordable housing area, we have taken on an initiative that has decreased the density of new homes that we are building substantially. We are building the amenities with affordable housing that people have in the suburbs: Giving people a front yard, a rear yard, Off-street parking. So I think that this particular land-tax proposal could have an impact on individuals who are either moderately-income or lower-income, so I would like to take that into account when we explore this initiative.

So those are just a couple of things that I wanted to put into play as we continue this discussion, and I'd ask for Mr. Saidel to look at that initiative.

It wasn't pretty much a question; it was more or less a is statement.

Thank you, Madam President.

COUNCIL PRESIDENT VERNA: Thank you.

I believe Mr. Saidel will be available at the conclusion at everyone's testimony today so we can ask whatever questions we have of him.

COUNCILMAN CLARKE: Thank you.

COUNCIL PRESIDENT VERNA: Thank you.

Are there any other questions of the witnesses that are before us?

(No further questions.)

COUNCIL PRESIDENT VERNA: Gentlemen, thank you, and thank you very much, Anne.

PANEL MEMBERS: Thank you.

COUNCIL PRESIDENT VERNA: Okay. Panel No. 2.

MR. MCPHERSON: Charles Pizzi, David Thornburgh, Paul Levy, Al Taubenberger, Sam Katz, Kevin Mazzacola.

(Witnesses come forward.)

COUNCIL PRESIDENT VERNA: Good morning.

Mr. Pizzi, I believe you're the first witness. Mr. Pizzi?

MR. PIZZI: Madam President, good morning. I am here, Council President, with Stu Weintraub, who will take questions. He is chairman of our tax committee at the Chamber, and so I would like just to say that.

COUNCIL PRESIDENT VERNA: Fine.

MR. PIZZI: One other thing, Madam Council President. I have made some changes to my testimony, so we'll get you a revised version.

For the record, my name is Charlie Pizzi, and I am President of the Greater Philadelphia Chamber of Commerce, and I come before you today, as in the past, to emphasize the need for immediate tax relief in the City and to conditionally support the City Controller's plan to implement reform.

In a recent consumer outlook survey conducted by the Chamber and Sovereign Bank, 72 percent of the participants felt that the number-one challenge in the City and region was taxes. We would take that a step further by stating that not only are taxes the number-one challenge, but taxes are the number-one deterrent to economic growth. Like it or not, our informed suburbanites do not recognize that a financially viable city means success in this region.

I testified before this body a few months ago on the reasons for population loss in Philadelphia. I stated unequivocally that the number-one reason for population loss and the attendant revenue loss to the City was taxes. And due to our regressive tax structure, Philadelphia has lost its competitive edge. It is primarily for this reason that businesses and residents alike fled to our neighboring suburban communities, thus reducing our ability to provide needed services for the growing sector of our residents who live below the poverty line.

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On Sunday, January 27th, there was an article in the Philadelphia Inquirer entitled "Montco's Economic Boom Lies at the Feet of Blue Route Exits." To find where the Philadelphia region's economy is growing, follow the exit ramps in Montgomery County.

This exit-ramp economy is siphoning jobs and businesses from Philadelphia. In the past decade alone, over 81,000 white-collar jobs were created in the likes of King of Prussia, Conshohocken, Fort Washington, Plymouth Meeting, and Willow Grove. Some of these jobs could have been in Philadelphia.

I would suggest to you that the time is now for the political encourage to stem the exodus and to create attraction of companies. This courage must be demonstrated by all of our elected leaders, not just one branch of government alone.

Historically speaking, not only for myself but also for my predecessors, starting with Thacher Longstreth and through Fred DiBona and then Nick DiBenedictus (ph), as I recall him testifying before Council, saying, "Businesses vote with their feet." Well, the tax structure in Philadelphia is not competitive and in order to be competitive, we must reshape taxation now.

Therefore, I find it refreshing that a public official and the City Controller has finally come out and recognized that there is a problem here. I am aware that there are some areas of concern in this proposal and which I spoke to the Controller about -- in particularly on how the land tax may affect refineries and petrochemical industries, automobile dealers, and others in the City and whether the land tax can be fairly levied in a major urban area, because we know it already works in other providences in the Commonwealth. However, the Controller has consistently stated there is plenty of room for flexibility in his plan.

The time to be heard and make suggestions is now. I do not think that a comprehensive tax reform in general is timely and should be viewed by all as a very positive step in the right direction. Certainly, it should be considered in conjunction with the school reform effort, which is currently under the microscope.

On the 29th, the Mayor unveiled his 2003 budget proposal which aggressively attacked the gross-receipts tax, which I believe is very positive. However, he froze the City wage tax after 2004, or until the economy gets better. I would ask the Administration to rethink that policy prior to the 2004 budget year, which would give them all in all another year to determine that this wage tax is important.

This said, we must be prepared to attack all of our taxes more aggressively in the future. Philadelphia has been moving ahead, but we do ourselves a great disservice when we allow taxes to create a barrier and chase away businesses and residents. This creates a cloud over our great city that causes us to be viewed in a negative light. Tax reform sends the right messages to businesses, the residents, parents, our suburban neighbors, and in Harrisburg, which we are continually looking to to help us.

Ladies and gentlemen, the time for political courage is now. Once again, the Chamber applauds the initiative of the City Controller for his ability to listen and be inclusive in preparing this document.

We all recognize the heroic deeds of our police and fire personnel who risk their lives out there and in particular in our country over the recent crisis at 9/11. Our city and our nation judge them to be heroes.

We need you, our elected officials, to view your jobs in a similar way. We want you to be our heroes by saving our city from fiscal crisis, risking your career, if necessary, by taking the right step on tax reform, and ensuring a healthy and viable community for tomorrow.

Thank you.

COUNCIL PRESIDENT VERNA: Thank you very much.

MR. MCPHERSON: David Thornburgh.

MR. THORNBURGH: Thank you, Council President Verna and members of Council.

COUNCIL PRESIDENT VERNA: Good morning.

MR. THORNBURGH: It's my pleasure to be with you here today, and I hope I can add a little more momentum and definition and focus to some of the decisions that you have in front of you.

I hope you have the handout that I've prepared. It's entitled "City Taxes and Tax

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Proposals."

And I wanted to begin with some reminders, I guess, from some other sources that we haven't heard from today about the nature and the challenge of the situation that we have in front of us of front of us.

First is a quote from a report that was done about two years ago for the Pew Charitable Trusts as an assessment of Philadelphia's competitiveness. And the quote that is bolded and italicized in that report is simply this: That becoming fiscally competitive is the Mt. Everest of Philadelphia's problems before which the City's other issues are but foothills.

I guess I would add there, lest that sounded like too overwhelming a challenge, it's important to remember that Mt. Everest has been scaled repeatedly, and that shouldn't put us off from this challenge in this city.

Second is to go back to a report that I helped contribute to when this new mayoral administration came into office. Mayor Street asked us, a small group of volunteers knowledgeable about tax issues, to take a look at the City's fiscal competitiveness and come up with some directional signals, and I think there was a very clear message in that report of the transition team: That the City must in fact achieve dramatic reductions in business and household tax burdens over the next eight years, and that we must do so by reducing the City's reliance on a city-based wage tax. So, again, other voices leading in the direction as those that you've heard today.

And I think what all of this circles around is really two key points, that we're talking about how tax issues affect the choices that people make, both individual choices, people sitting around the kitchen table, trying to decide where they live, where they should send their kids to school; and decisions that business make, maybe sitting around their conference table or in their offices.

The sum total of those choices over time really determines whether we grow or whether we don't grow as a city. And I think unless we find some other substitute for the positive benefits of growth, we've got to keep coming back to that issue of growth and the choices that people make that affect those.

Now the question is, there's always been a lot of debate about how much difference high taxes have made, and let me just review a little bit of the evidence over time. Professor Bob Inman has been referred to a couple of different times; he contributed greatly to a landmark study in the early '90s that suggested that the wage tax itself had cost the City between 100 and 165,000 jobs over a 30-year period. Keep in mind that the City's job base is on the order now of about 650 to 700,000.

Second thing is -- and I know Paul Levy's going to speak in a minute about the Center City office environment, but it's pretty clear that much of that impact has been on our office-employment sector, and I think Paul's going to share with you some ways to think about office employment that really drive that point home.

One bit of information that I picked up just recently, I think, really struck me as a very, very challenging comment on our office-employment sector. Essentially, and in a large measure, because of or tax situation, we have become, unfortunately, what I think people in the market see as a Class B office market. But essentially, in our Class A office rents, the best space that we have in Center City, where we're employing a high-wage people, rents in 2001 were about $27 a square foot. If you look nationwide, Class B office space, less desirable office space, is actually renting for more than our most desirable office space, and I think that's a clear indicator that there just simply hasn't been enough demand for that space over time.

And if there isn't demand for that space, there's no employment growth in that environment, the wages don't flow, the people don't flow back to neighborhoods, and we end up exactly where you'd expect we would.

Just one more sort of contributor to this conversation. There have been numerous surveys over time of asking people why the City's population has decreased, why jobs have left the City. I only cite one, a 1991 GPF said that suggested that the wage tax was second only to crime as a reason for leaving the City.

Just a couple of numbers. What would the Pennsylvania Economy League be without a couple of numbers. How bad is the tax situation now for middle-income households? And these, I would suggest, are households that are actively making choices about where they live and where they work. The regional median income is $47,000 a year. If you're that household and you're making a choice about where you live and work in this region, essentially, you pay about 50 percent more to live and work in the City of Philadelphia than you would in the typical suburb. That amounts to about $2400 a year in state and local taxes, all in, everything considered, everything that we could throw at that, and $2400 on an income of $47,000 a year, as you know, is a substantial, substantial hit.

Turning to the business side, a gentleman offered some comments about the dealings that he has with life sciences and biotech firms. We have put together again an all and comprehensive model that assesses what it costs in the way of state and local taxes for a business to expand, and we've run that through a bunch of different businesses. When you look at a biotech firm, essentially it's on the order of twice as expensive from a state and local tax perspective to be in the City of Philadelphia as it is to be in a typical suburb.

It's kind of interesting relative to some of the questions that have been asked. We said, Well, what would happen if we totally eliminated the gross-receipts tax, not just reduced it a little more but eliminated it, and you can see that it actually would have very little impact on the tax hit on that biotech firm. It would take the City tax hit down from 11 percent to 10 percent.

We played another "what-if," and said, Well, what would happen if we implemented all of the proposals that the City Controller has outlined in his report? And in fact, it gets us a little further, but still, you're at 9 percent in the City levels versus 6 percent in the typical suburbs.

So I suggest that that's one way of looking at this question of how much impact the gross-receipts tax has and it's also a way of framing the Controller's proposal.

You know, the Holy Grail in all of these discussions is often, What's the payoff? how do changes in tax rates accrue to people living in Philadelphia neighborhoods to job growth to Center City office rents, whatever we care about. One thing that we looked at is just in the last five years, if Philadelphia's so-called new-economy firms -- and this is the biotech firms, life sciences, information services -- had grown at just the suburban rate, there would be 20,000 more high-wage jobs in the City than there have been.

And, again, I know Paul will speak to this in a second, but it's really important to keep in mind that while we think of Center City office jobs, that Center City office jobs are really neighborhood paychecks.

A couple comments about tax revenues and tax and base, and Dick Voith alluded to some of these earlier, and we've been working with Dick on this. It is clear that a wage-tax cut will increase the wage tax base and there will be more wages in the City of Philadelphia. And no one disputes that; we dispute how much and how soon. And I think we're going to be able to help enrich that conversation in a short period of time.

It's also probably true that a wage-tax cut will increase the property-tax base, meaning even if you kept property-tax rates the same, you would realize more property-tax revenues because of that shift, because all of a sudden, it's more desirable to live and work in the City of Philadelphia.

So with some degree of caution, of course, I urge Council and this administration to take those so-called base adjustments into account when we're making tax-revenue projections.

Just a comment or two about the Controller's proposal. I would second or third those who have spoken before me. I think this is one of most thorough published analyses of city taxes that I've seen in the last 15 years. I would have been proud to have my staff and my organization author this report, and I commend the Controller in his efforts.

It is, however, a relatively modest proposal that narrows that household gap that I spoke about earlier only about -- by about $232. So I would suggest, if anything, I know the Controller is trying to do this within the strict confines of one fiscal year budget, I would urge that there's much more room to go to make this city more competitive.

A focus on the wage tax, I think, again, is well-placed; the point's been made before.

A split-rate tax, I would second some of the thoughts that Mr. Pizzi had earlier. This could be helpful in terms of some of our blight issues, but we've got to approach it with a degree of caution.

In conclusion, I think that the burden of proof, so to speak, is staggering that the City's economy will continue to lose ground with current tax structure and current tax burdens. It will continue to affect negatively the choices that households and businesses make about the City as a place to live and do business.

The Controller's proposal, I would commend. I think it would achieve some modest progress, but I want to keep bringing this conversation back to what others have said before me, that the focus on the wage tax is the key, and unless we're unable to make significant headway in that, I'm not sure that our competitive situation is going to be much improved.

Thank you very much.

COUNCIL PRESIDENT VERNA: Thank you.

Our next witness?

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MR. MCPHERSON: Paul Levy.

MR. LEVY: Good morning, Council President Verna and other members of Council.

COUNCIL PRESIDENT VERNA: Good morning.

MR. LEVY: My name is Paul Levy. I'm here as the Executive Director of Central Philadelphia Development Corporation, and I'm really delighted to have an opportunity to participate in this discussion

I have prepared not printed remarks or text remarks, but a set of images that I think convey what I want to talk about.

On the first page, we simply have, based on reach we've done and looking at published numbers, the effect of Philadelphia's recovery from the very severe recession that we began in 1989, 1990. And what you see in this chart is in about '95 or '96, private sector employment began to decline as we went into a process of revival, but unfortunately, the recession that began in March of '91 and then was compounded by 9/11 has obviously begun to cost us private-sector jobs.

But if you look back at the causes of that revival on Page 2, clearly this city, this administration and the prior administration, and Council made a series of major public investments in arts and entertainment facilities and in the Convention Center. And the very good news about those investments is that they have paid off dramatically.

If you look at Page 3, you will see that from 1994 to 2000, hospitality jobs, hotel jobs arts and entertainment, restaurant jobs grew by 34 percent. It's been a very wise and strategic investment and one that has paid off.

But if you look at the top of Page 3, at the top line, you will notice that office-sector jobs, the jobs in the towers just west here of City Hall grew not all during that period of time.

If you look at the bottom pie chart and look at the City as a whole -- this is private-sector employment -- you see that health care and education clearly is our largest sector of employment in the City; business and professional services, the office jobs, are second; hospitality is third.

What we've experienced is a very, very strong rate of growth in the hospitality-sector,

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but if you turn and look forward in a couple of pages, you realize that it has not been mirrored in other sectors.

What I want to emphasize on Page 4 is, this is not an either/or choice. As a city, we need a balanced economy, one that has investment in arts and entertainment, in conventions. And clearly, hotels, theaters, and restaurants create an environment that attract business. And those hospitality industries generate work for architecture, engineering firms, and law firms.

Similarly office tenants attract both corporate meetings and business travelers, so I'm not in any way arguing that it's one or the other; I'm suggesting it's both.

If you look, however, at Page 5 at the charts, you'll see again, looking back a little longer to 1990, that while we saw strong growth in hospitality, we had only modest growth in our largest sector, which is health care and education, and we actually lost jobs, looking back to 1990 in our office sector. So we had modest or growth in 50 percent of our economy, which has been the challenge that we face.

Again, those office jobs, which I want to focus on, represent 25 percent of all employment in the City.

If you look to Page 6, it's a more detailed look at the trends, and this mirrors what some of the other people who have testified this morning have said.

If, again, you look at hospitality jobs, in '94 to 2000, they grew by 34 percent. Office jobs grew not at all.

But if you look at the bottom of Page 6, at the Pennsylvania suburbs, those very same jobs which we did not grow in Philadelphia at all grew by 22 percent in the surrounding counties; that is, very, very strongly growth in Bucks and Montgomery and Chester County.

Now, again, it's balanced. If you look at Page 7, the hospitality and restaurant industry provides very important entry-level and mid-level jobs. These are jobs that are supplemented by TIFs, which are very good for the individuals but, unfortunately, not captured by the wage tax.

On the other hand, the office-sector jobs, as a higher-wage job, clearly generate a higher

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volume of wage taxes.

Now, I use the words "high wage" in quote s because if you look at the bottom of Page 7 -- this is based on a survey we did of 39 downtown firms -- what you will see is almost two-thirds of the jobs in the office sector pay between 20 and $60,000 a year. Those are middle-class jobs, those are working people's jobs that are in our office sector.

If you turn to Page 8, we just list some of those jobs that pay between 25 and 50,000 a year in the office sector, and those are jobs that we know that people across our city hold.

If you look at the bottom of Page 8, you see some important statistics, because this is not a downtown versus neighborhoods issue. Office jobs are neighborhood jobs, and the people in our neighborhoods who work in downtown office buildings on average earn more than other people in those neighborhoods, which means they drive improvement, they drive retail sales in those neighborhoods.

And there's a chart, which I actually have a larger version 'cause I realize this one is hard to read, but you will see that in every neighborhood across the City, there are people, substantial numbers of people, who work in our downtown office buildings who rely on SEPTA to get into the downtown.

Again, this is not an either/or choice; we need both entry-level jobs, hospitality jobs, and office jobs.

But the bottom of Page 9 is a very simple statistic. The average office job generates 2.6 times as much wage tax as the average hospitality job. Not either/or, we need both. But failure to grow office jobs means a major missed opportunity.

Top of Page 10 is just a visual representation of that challenge.

Zero growth in office supply in Center City in the strongest economy we've experienced in this country, 41 percent growth in office supply in the surrounding suburbs. Zero growth in Center City, 41 percent out in the suburbs.

Is this the fate of all cities? Top of Page 11. Just benchmarking against Boston, in the decade of the '90s, the central business district of Boston captured 30 percent of their region's office growth and has now bypassed us in terms of total supply. We captured only 9 percent.

If you look at the bottom of Page 11, "the sprawl capital of the world," Atlanta, is only slightly better than we are. Only 17 percent of all regional employment is now in our central business district. Other regions have done better holding employment in the center.

I remind you that we have a mass-transit system that takes people from neighborhoods into the downtown. It is harder and harder for neighborhood residents to get out to the jobs in the suburbs. We are subsidizing transit and subsidizing welfare individuals to get out to jobs at the edge when we have a major transit system that feeds the center.

Pages 12 borrow from the work that David Thornburgh's organization has done. The point about this is, we have sprawled all over the suburbs and created vacancy within the City.

To conclude, on Page 13, our strategic advantage clearly is, it takes 1,364 square miles of Montgomery and Chester Counties to provide as much office space as we put together in the downtown.

If you flip over to Page 14, we talk a little bit about the opportunity costs, that we've grown at the same rate is the suburbs in the last part of the decade. Taxing at 3.5 percent, the City would have enjoyed $50 million more in wage-tax revenue.

So the fundamental question which I think you face, that we all face, that the Administration faces: Do Philadelphia taxes affect the choices made by businesses and office workers? And can you, can anyone, demonstrate that the reduction in taxes will attract businesses and generate new taxes without dramatic cuts in services?

Now, I'm not an economist or a social scientist, but on Page 15, I thought I would imagine the following situation: I'd like you to image an office park where all of the property within that center had the same access to highways, the same access to labor, the same great restaurants, but imagine if you drew a line down the middle of that office park and taxed one side of the park at one rate and one at the other.

Fortunately, Councilman Nutter has conducted this experience for us on City Avenue.

If you look at the bottom of Page 15, you will see the commercial office district that is on both sides of City Avenue. There are 2.8 million square feet of commercial office space aligned around City Avenue. Draw a line down the middle and turn to Page 16, and you will find that 2.6 million square feet of that office space are across the City line, in Montgomery, and only 200,000 has located in Philadelphia, and a good portion of that space is vacant.

We clearly have extraordinary competitive strengths. Sixty-severn percent of our office workers come by mass transit; we ought to be reinforcing that. Ask office workers what they like: It's convenient commute, it's shopping and dining, it's all of the amenities we have spent the last decade building. It's our access to education, it's our access to a whole series of great transportation opportunities at the airport bottom.

Bottom of Page 18, we are incredibly affordable. Cost of living. If you wanted to take a $60,000-a-year salary in Philadelphia and earn the same thing in Manhattan, you would have to earn

$122,000 a year to afford to live in Manhattan.

We have extraordinary advantages that we capitalize on.

And so in conclusion, I would say simply that as a city, we have made very wise strategic investments in a convention center, in arts and entertainment. I think if we looked at the cut in the wage tax as a strategic investment, it's a strategic investment that could yield extraordinary returns for the City.

Thank you for this opportunity.

COUNCIL PRESIDENT VERNA: Thank you, Mr. Levy. As usual, your testimony was very informative. Thank you very much.

MR. MCPHERSON: Al Taubenberger.

MR. TAUBENBERGER: Thank you, Madam Chairman. Madam President, members of City Council, my name is Al Taubenberger. I'm President of the Northeast Philadelphia Chamber of Commerce. We have just under one thousand members, mostly small, in Northeast Philadelphia and even some in the surrounding suburbs.

When Mayor Rendell talked to our chamber sometime back, former Mayor Rendell, he said, "I just reduced the City wage -- by a small amount, I understand -- but nobody thanked me. I didn't expect thanks. But had I increased the City wage tax by the same amount as I reduced it, there would have been an outcry from the City that would have been louder than any cheers or screaming from any sports events that we've ever had in this town." He simply realized that our city, our community, and our businesses are taxed to the maximum. They are literally at, what economists would say, "What the market will bear." With 68,000 people leaving in the last 10 years, 48,400 jobs leaving in the last 10 years demand an overhaul of our tax policy.

The Northeast Chamber thanks City Controller Saidel and his staff for putting together this proposal. Some of the things that we have looked at and we like:

• significantly reducing the business taxes; reducing the net-income portion of the business-privilege tax from 6.5 percent to 4 percent;

• reduce the gross-receipts portion of the business-privilege tax from 0.24 percent to 0.20 percent;

• eliminate the City net-profits tax; shift taxes to dramatically;

• cut the wage tax and encourage development;

• change how property is taxed by shifting taxes from buildings to land values;

• discourage speculation and encourage development;

• reduce the wage tax to 4 percent for City residents;

• accelerate the pace of the wage-tax reductions;

• reduce the wage tax in steps to 3.5 percent for residents and 3.375 for non-residents by Fiscal Year 2007;

• improve business-friendliness of the tax structure;

• implement a Philadelphia new tax deduction to encourage companies to create new jobs. And quite frankly, as a chamber executive, a good job at a good wage is better than any government program.

Splitting the real-estate tax from land and for buildings is a very realistic approach.

Taxing land at about three and a half times the rate of buildings gives owners the incentive to develop rather than just hold land on pure speculation. Nineteenth-century Philadelphia resident Henry George said it very simply: "As development and obs and other economic activity grows, the local economy blight is chased away."

One just has to look at some surrounding cities to see what this is all about. Harrisburg slashed its vacant land stock by 80 percent in 20 years. Two-term Allentown Mayor William (indiscernible) left office with three out of four homeowners paying less taxes than they did in 1994.

For these reasons, the Northeast Philadelphia Chamber of Commerce enthusiastically supports City Controller Jonathan Saidel's proposals.

COUNCIL PRESIDENT VERNA: Thank you.

Our next witness?

MR. MCPHERSON: Sam Katz.

MR. KATZ: Thank you, Madam President and members of Council.

COUNCILMAN COHEN: Madam President, I have a question.

COUNCIL PRESIDENT VERNA: Do you mind if the panel finishes their testimony, and then we'll take questions.

COUNCILMAN COHEN: Well, I understood that and I'm trying to do it, but I'm struck by one thing that I wanted to mention. No one yet mentions the particular facts concerning Philadelphia as a city which is also a county; no one yet that I've heard of mentions anything about the State's imposition on the City of the cost of the courts, of its unwillingness to pay fair amount for educational purposes, and I'm wondering whether these facts have been considered.

COUNCIL PRESIDENT VERNA: I don't know that the gentlemen at the table can answer that , but Mr. Saidel is going to make himself available after all of the panels have testified.

COUNCILMAN COHEN: Very good.

COUNCIL PRESIDENT VERNA: So we can question him at that time.

Thank you, Mr. Katz. Please proceed.

MR. KATZ: Thank you, Madam President. I'm Sam Katz, CEO, Greater Philadelphia First. I've been here a couple times and told the members of our Council that our business organization, Greater Philadelphia First, has as its mission trying to take actions and implement strategies that will help accelerate the transformation of this region's economy from an industrial and service base to a knowledge-based economy. And we believe very strongly that the City of Philadelphia can be an anchor for this future, principally because the most significant investment in a knowledge-based economy are universities. We're the brain power factories of the 21st century.

The City of Philadelphia has the quality-of-life amenities that few suburbs can compare to. It has diversity of neighborhoods and diversity of people.

But isn't Philadelphia leading the charge to the 21st century? And I would argue that taxes, schools, image, and determination are all contributing to the City's myopic perception as a place to start, launch, and grow a 21st-century business. Both David Thornburg, Paul Levy, Paul Tirjin, and others have done a good job of explaining some of the factors here.

But we always talk about trying to land a big fish when it comes to economic development -- going out and bringing in a Boeing or bringing in a big company. It's very hard to do, it's very expensive, and it experiences a very high rate of failure, not only here but throughout the country.

But the little fish, properly nurtured and given room to grow can sometimes grow into big fish. Who would have thought 30 or 40 years ago that a little cable company in Tupelo, Mississippi, started by a Philadelphian would be the biggest cable operator in the room and likely will lead the advancement of interactive communications in ways that we can hardly imagine. And that company calls Philadelphia its home.

But the problem for entrepreneurs, the Ralph Robertses of today, is the Philadelphia City wage tax. It strangles economic growth and it is an icon for Philadelphia's lack of competitiveness. I think the statistics will clearly bear out the view that the wage tax is a disincentive for corporate location and corporate retention, but it's equally important that the perception of the wage tax drives all of the perception about Philadelphia as a place to do business.

The Controller's Tax Structure Analysis Report is a courageous and analytically persuasive contribution to this city's long-term debate about how to rein in and reform its tax policy, and we congratulate Controller Saidel and his staff, and particularly Brett Mandel, for a job well done.

And while we could focus on the very intricate and variety of proposals that are in it, GPF continues to believe that it's the wage tax that will determine Philadelphia's future competitiveness.

In another part of my business life, I'm an investor in technology start-ups, most of which are in the greater Philadelphia region. One of our investments, a life-science and medical publishing company based here, Med Cases, provides an interesting and useful case study on how the wage tax stifles the very kind of economic development that will characterize 21st-century economies.

In many ways, despite its continued presence in the city, Med Cases is a poster child for why technology start-ups with the highly-skilled and highly-paid workers move out of the City to escape a punitive tax structure. The company presently employs 59 people, of which 41 live in the suburbs. In terms of wage taxes, the average high-skill employee of the company pays nearly $5800 annually in City wage taxes, a cost which Med Cases has to make up directly in higher salaries in order to keep that talent coming to their company.

Based on current sales and capital, the firm anticipates considerable growth so that over the period 2000 to 2004, its employees can be expected to pay $2.8 million in City wage taxes. And to incent its suburbs employees to come into town every day as well as to equalize the salaries between those employees and the ones who live in the City, the company will spend $2.8 million more in salaries to offset the effect of our wage tax.

Since Met Cases does not anticipate profitability or becoming cash-flow-positive until after this period, the effect of this salary and talent retention strategy is the direct transfer of $2.8 million of the capital generated from venture investors like myself directly to the City treasury. Speaking for our company, we would have preferred to have seen these funds expended on new software products. In Med Case's case, that money could have generated over 16 new products and given our current development costs an investment that would have increased our earnings or our revenues by $12 million over that same time.

Multiply these numbers by dozens of start-ups year after year and it translates into lost opportunity, lost employment and wages, and a loss of economic prestige. It's no wonder that one suburban economic-development director recently told me that his county's most successful economic-development strategy is simply to keep its borders with Philadelphia open.

It's time to cut the wage tax, not to abandon the cuts. It's time to speed them up. It's time to develop a plan to commit to a wage tax number that gets us to a place where the wage tax stops being an issue affecting the economic future and vitality of Philadelphia.

Over the past several years, Keystone Opportunity Zones have been created to relieve companies of state and local tax burdens, except for the one tax that is driving business and jobs away from the City. Maybe it's time to test the validity of this theory by selecting for two Keystone Opportunities for tech start-ups and rebating collected wage taxes; in that way, we would avoid the problem of the Constitution of Pennsylvania, which requires the uniformity in taxation. Then we could measure the business growth in those KOZs and put this issue to rest.

Madam President, we're at the dawn of the coming age of biotech. Philadelphia is the center of academic medicine and life science research. A $100 million is about to be made, centered in Philadelphia, in the biotech greenhouse funds and in new-venture capital funds that will spawn numerous companies. Today, the suburbs are filled with Philadelphia start-ups and biopharmaceuticals, medical devices, and life-science companies. Eighty-five percent of all pharma employment is located within 50 miles of the City, but almost none of it is located in the City.

Will we act together to keep the dozens, or even hundreds, of new start-ups that the biotech phenomenon is creating, or will the seeds planted here in Philadelphia grow into great companies in Malvern and Exton.

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Recently, one of the members of Council told me nobody complains about the wage tax in her district. I understand that point of view, because the people that complain about the wage tax have already left. How we deal with the wage tax will provide much in the way of answers to the question, can Philadelphia lead the way in the 21st-century economy?

Thank you, Madam President.

COUNCIL PRESIDENT VERNA: Thank you.

Mr. Mazzacola, are you a member of this panel?

MR. WEINTRAUB: Madam President, I'm Stuart Weintraub who is sitting in for Mr. Pizzi's questions.

COUNCIL PRESIDENT VERNA: Okay. I thought that Mr. Mazzacola was called; however, he's not on this panel, as I understand it

So at this time, I would like to recognize Councilman Nutter.

COUNCILMAN NUTTER: Thank you, Madam Chair.

Gentlemen, I wanted to, one, ask you the same question that I asked the last panel, and then

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I wanted to ask Mr. Levy and maybe Mr. Weintraub and possibly Mr. Katz a couple of questions.

One, can you share with us your level of involvement with regard to the recent proposal on the acceleration next year of reduction in the gross-receipts tax and the ending of the reductions in the wage tax, as announced by the Mayor in his budget address the other week; as well as just yesterday, our Budget Director was here talking about the advice that the Administration had received from a wide variety of economists, business people, and others throughout the City. And I just wanted to know what your involvement was, if any, in that as well as your thoughts on that particular idea.

MR. THORNBURGH: If I could respond first, Councilman Nutter. We were not consulted in any substantive fashion on that choice, and I think you saw in the testimony that I have presented today that in our modeling of some of these situations, it doesn't appear that accelerated cuts in the gross-receipts tax would have a significant difference on the business decisions that we're trying to understand today.

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COUNCILMAN NUTTER: Thank you.

MR. WEINTRAUB: For the record, my name is Stuart Weintraub, sitting in now for Mr. Pizzi. I am a partner at Schnaeder, Harris, Segal & Lewis, and I am Co-Chair of the Chamber's State and Local Tax Committee. Both in my capacity as Co-Chair of the Chamber's State and Local Tax Committee and professionally representing my clients, I was not consulted at all by the Administration concerning those proposals.

COUNCILMAN NUTTER: Mr. Weintraub, are you -- I mean, are there others -- I know you to be a relatively modest person, but are there others in the City or in the region who would, at some level, consider you to be somewhat of an expert in the tax area?

MR. WEINTRAUB: I've been...

COUNCILMAN NUTTER: Don't be bashful.

MR. WEINTRAUB: I've been practicing in Philadelphia taxes for 30 years, represented -- I was in the Law Department for ten years, representing the City of Philadelphia and its tax works. So I think some people do consider me such.

COUNCILMAN NUTTER: Thank you.

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Anyone else care to respond to the question? Okay.

First, Mr. Levy, I do deeply appreciate, I think, the compliment with regard to the City Avenue Special Services District, but actually I will give one back. Your work tremendously assisted in the creation of the quite unique City Avenue Special Services District, which covers two separate political jurisdictions, and I do want to thank you publicly again for helping us with that. We continue to try to model ourselves after the Center City Special Services District and hope to continue to do you proud.

A very compelling presentation, and I tagged a couple of the pages. And, I guess, jumping to Page 14 of your presentation, you do both ask the right question and then almost kind of answer it with a question, and I guess through your work or through the work of others -- I mean, one, I know you're very sensitive to the notion that if you have general or even radical tax change, it could have the potential, at least, for a serious impact on the City and its ability to run the government, provide a certain level of services.

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And I am continually grappling with the what-if question. And your shorter question is, isn't this a huge gamble?

I think we at least know that one side of it is to do nothing. It's not only -- I mean, it's not really so much a gamble; we already know the answer to the question, 'cause we can see the results.

To your knowledge, has anyone proposed the much more aggressive model and shown through that model for even -- for the transition and if there were a relatively significant decrease in tax revenues, how would we get from the current place, whether we like the current place or not, to the better place and survive? And, I mean, if others want to respond to that...

MR. LEVY: Councilman, I think David Thornburgh may be better equipped to answer the last part of your question.

But I would say simply, one, that no one can predict the future, obviously. What we can do is look at past patterns, and I think there is some very compelling data that shows that we have had growth in professional and business services throughout this region, and other people have testified about very extraordinary growth in the technology sector. And we can document that a huge portion of that growth has bypassed Philadelphia, and that has cost our neighborhoods jobs, our neighborhoods across the City jobs.

I think we also know that when we ask both employers and employees, they point to the wage tax either substantially or symbolically.

So I think there's a tremendous amount of circumstantial evidence out there, the most compelling of which is the drive when you get off the expressway on City Avenue and look to your right, and there are apartment buildings and there are hotels and there are tax-exempt hospitals; and you look to your right and there are 2.6 million square feet of commercial office space with jobs paying high wages, all avoiding City taxes.

I would really defer to my colleague David Thornburgh, who, I know has done a great deal of work on the what-if scenarios, 'cause that is not my area of expertise. Thank you.

COUNCILMAN NUTTER: Thank you.

MR. THORNBURGH: Thank you, Councilman

Nutter.

We have, in fact, been working on a variety of questions that, I think, are similar to the kinds of questions that you are envisioning, because you do have to look at this in kind of a transitional form. And I would be very happy to share those with you and your colleagues on Council and the Administration and a wide variety of folks when we're ready to, but we're not quite ready to.

COUNCILMAN NUTTER: Okay.

MR. THORNBURGH: But I can tell you -- I think you heard in my testimony and in Dick Voith's testimony, who we've been working with on some of these things, that we will be able to produce as state-of-the-art as you can get in these things, 'cause Paul's right, we can't predict the future, but we will be able to put some things on the table that suggest, based on historical relationships, what cuts in various taxes might mean to the growth of tax bases, which is what this is all about.

COUNCILMAN NUTTER: Right.

MR. THORNBURGH: And then once we're able to size that number, then we can go -- because, again, this is about growth, and once we have some sense of how reductions in tax rates affect growth in tax bases, then we can put other things on the table to try to --

COUNCILMAN NUTTER: Let me ask you a question -- not to press you too much, but to press awe little bit. Do you have a sense of the timing of when that work might be completed? We are --

MR. THORNBURGH: I understand

COUNCILMAN NUTTER: We are at a fairly -- I mean, I think we're at a fairly unique and good point in time in the year. We are -- I mean, yesterday, we officially started our budget process.

MR. THORNBURGH: Right.

COUNCILMAN NUTTER: And so we're going to have a lot of this discussion going over time, and so I guess I would now, in a more formal way, ask both yourself, Mr. Katz, Mr. Weintraub on behalf of the Chamber, if you have, or if you could propose, a variety of scenarios involving taxes, whether it's wage tax, gross-receipts tax, or other taxes, that you believe could show over a five-year period of time the kind of change and growth that this city needs, I'd be very interested in hearing that and having the opportunity to have that discussion and that debate. That discussion and debate needs to take place right now.

And it would be helpful to all of us, I believe, if somewhere -- and I don't know what your timing is, but certainly somewhere in a two- to four-week timetable, you have a document that people of good reputation and expertise were prepared to stand behind and have a serious discussion about, I think that, kind of in the vernacular, we need to "get it on" and have that debate and lay it all out, and then we can have, you know, every person have their say and have their piece, but that discussion needs to happen right now from people who are in business or who know business and are willing to put their name and reputation behind something and then lay it on it, and then people can just make a decision and decide once and for all what we're going to do and how we're going to do it and have the debate right now.

MR. THORNBURGH: Councilman Nutter, I think in speaking for our organization that that two- to four-week timetable is very, very doable.

COUNCILMAN NUTTER: Very --

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MR. THORNBURGH: Doable.

COUNCILMAN NUTTER: Doable. I like that word, okay.

Mr. Weintraub, Mr. Katz, any response or reaction to any of this or -- I mean, are you comfortable with -- I don't know to say "a charge," but at least a request.

MR. KATZ: Yeah. I think our inclination would be to work with David on this.

There was a piece -- I think it was written in the Inquirer and it may have been a more detailed that Jeremy Nowak and the Reinvestment Fund put out about a year ago. It was a fairly radical proposal, but I think in many ways, you know, we don't have five to ten years, in my opinion, to deal with this --

COUNCILMAN NUTTER: Right.

MR. KATZ: -- because the erosion, despite a nearly half a point reduction in the wage tax since 1995, has continued relatively unabated, even during a very substantial period of national economic growth.

COUNCILMAN NUTTER: Right.

MR. KATZ: Jeremy's proposal, as I

remember it, called for a massive cut in the wage tax, with some kind of combination of federal and/or State interim funding to the City, a loan, to help bridge the period in terms of lost revenue. I don't know whether that's politically feasible; obviously, there's not a lot of sentiment to doing that if it was done by multiple urban centers because of the impact on budgets.

But it may be a sale of assets, for example, the Airport, to a region authority or a municipal authority, or some other combination of actions might create a pool of capital sufficient to help the City bridge a dramatic cut in the City wage tax, the effect of which should have much more substantial impact on reversing economic loss because of the size of the cut, and it would be the case if it was a ten-year increment to get down to 2 percent or 1.5 percent or whatever its number was.

COUNCILMAN NUTTER: Right.

MR. KATZ: And I would encourage you to look at it or talk to Jeremy about those ideas.

COUNCILMAN NUTTER: I would be glad to do that.

And, again, my comments with regard to a five-year timetable is only in the context of, at least during my time in government, which is still relatively short, all discussions about finances are now generally discussed in a five-year context because we now have a requirement, as a part of the PICA statute, to have a five-year plan. And so you can't have a financial discussion here without a five-year timetable that lays out the impact.

I do also, in recognition -- and then I'll be done, Madam Chair. Councilman Cohen left; he did raise, though, or attempt to raise earlier, the other side of a very serious question, and I would only, again, throw out, because many of you have a variety of contacts in other places and other governments and political jurisdictions. As we try to deal with our own tax situation, there are many costs that this city pays as the only city and county in the Commonwealth of Pennsylvania that impact our budget in a fairly unique fashion as compared to any other city or county in the Commonwealth of Pennsylvania.

And it would also seem to me that in a true spirit of partnership, not only would I request that we have the tax discussion, but we also have the discussion and then action on issues like court costs and social services and a whole host of other things that other cities are not responsible for here in the Commonwealth of Pennsylvania. And I don't know to get into, you know, who what made what ruling when and how long that's been going on and the like.

But I think in the best spirit of the word "deal," if there was an ability to do certain things and take certain risks on the tax side, and if as a part of that deal, we could get some relief on some of these other county-related costs for which we have no county to turn to but ourselves, then I think all of us make out in that process, and I would only ask you think about that when you're talking to some of the other political players in this discussion.

Thank you very much.

Thank you, Madam Chair.

COUNCIL PRESIDENT VERNA: Thank you.

The Chair recognizes Councilwoman Brown.

COUNCILWOMAN REYNOLDS BROWN: Thank you, Madam President.

Good afternoon, gentlemen.

Could any one of you, or all of you, speak to the land-value tax and whether you think the time is ripe, R-I-P-E, or right to do it, given where we are with regard to NTI in its current state?

MR. THORNBURGH: I'll just repeat my earlier comments, I guess. We have not looked at that, the potential impact of that tax in-depth, but I think there's a certain powerful logic to it, that if accompanied with the ability to fairly and efficiently administer that and to deal with some of the concerns that, I think, Charlie Pizzi raised, it could help.

COUNCILWOMAN REYNOLDS BROWN: Mm-hmm.

MR. THORNBURGH: How much, I really can't have a basis for that judgment.

COUNCILWOMAN REYNOLDS BROWN: Very well.

MR. KATZ: Councilwoman, if you're asking the question purely in the context of neighborhood transformation, that it's probably going to have a positive impact. Among the choices of things that the City might do if it were only doing a couple of things or one thing in tax reform, I would urge that the wage tax be at the top of the list.

COUNCILWOMAN REYNOLDS BROWN: Okay, that's very helpful.

Anyone else?

MR. WEINTRAUB: Councilwoman, there are a whole host of issues that need to be studied with respect to the land-value tax, ranging from the legal issues as to whether or not it would pass scrutiny under the uniformity clause, and even though it has been implemented in some other cities in Pennsylvania, to my knowledge, it has never been judicially tested.

COUNCILWOMAN REYNOLDS BROWN: Mm-hmm.

MR. WEINTRAUB: So that would be an issue that would need to be addressed.

There are issues that have been raised, as Councilman Nutter suggested, on the cost side, the cost of implementing it.

COUNCILWOMAN REYNOLDS BROWN: Yes, yes.

MR. WEINTRAUB: You know, given that my practice is very heavily into real-estate assessment appeal work, I can tell you that the number of appeals that would be filed with the board just routinely, not just because of any challenges to the system, just normal annual routine appeals, would dramatically go up.

So, you know, those are other issues that need to be addressed, plus the economic issues as to how the impact is on various sectors of the economy.

Mr. Pizzi in his testimony suggested in the petrochemicals, the refineries, the auto dealers, and others, they all generate significant jobs in the City, generating significant wage tax for the City; and what the land value tax would do to them would be a significant question.

And these are all issues that need to be addressed.

COUNCILWOMAN REYNOLDS BROWN: Very helpful. Thank you have very, very much.

COUNCIL PRESIDENT VERNA: Thank you.

The Chair recognizes Councilman Ortiz.

COUNCILMAN ORTIZ: I think I concur with Councilman Nutter (inaudible, off-mic.)

... It isn't only the wage tax that makes the middle class leave; the bad educational system or an educational system that is efficient. And I think the aspect of lack of a middle class and a middle class that is leaving impacts on the type of educational system that you have, because you don't have people that are contributing to that system.

And as the reform movements that have impact on low- and low-income and poor people across the nation and the safety net that had been built since the Roosevelt era goes out of existence, the need for a job-creation machine, a job-creation motor, becomes even more evident in urban areas such as Philadelphia, specifically in the Northeast.

And I've been getting intrigued as to whether and how -- and I think Michael was speaking to that -- that transition period, because if we can have all of the neighborhood transformation aspects that we want, but unless there are actual jobs that are created, unless a new middle class is created within the City of Philadelphia, unless we stop the migration of our people outside of our borders and begin an immigration of people, I agree with you, Sam, I don't think we have ten years; we have a very short period of time.

The level and percentages of poor people in Philadelphia is not decreasing; it's increasing.

MR. KATZ: Right.

COUNCILMAN ORTIZ: So I'm intrigued as to how do we begin pitting this into effect and how do we transition so that the services that the people that are currently living in Philadelphia do not get diminished and begin a new process of people leaving because of services and the lack of ability for the government to be able to function.

So I am, as a liberal and a person, I'm getting more and more intrigued as to the job-creation aspect of this issue and what is the potential and how long and when do we see results. I think that's...

MR. KATZ: Can I comment, Councilman?

COUNCILMAN ORTIZ: Yes.

MR. KATZ: I think that's an encouraging statement, because I would say that there is a perception among many people, among many executive in the business community, many entrepreneurs in the region, many people that run small businesses that the will to sustain significant changes in the taxes as they impact job creation does not exist in Philadelphia. And so if the message from this City Council is to the contrary and if there are going to be a continued set of hearings such as what Councilman Nutter is proposing to do in which this Council has done in response to Controller Saidel's report about how to create a tax climate in Philadelphia that will be a job -- a sustainable job tax climate, I think that in and of itself would be a very important first step.

And I have to tell that you from my point of view and from where I sit, I don't think that perception even remotely exists as it relates to the whole of City government -- not just this Council or the Administration, but in general, that this is a high-tax market because that's the way it's always been and that's the way it needs to be.

And I hope that your message today is one that others on the Council share 'cause I think that we can do a heck of a lot better here and make a substantial impact on sustaining employment.

COUNCILMAN ORTIZ: I think if you heard the debate over the NTI process, I think if those of us who arguing not against it but for a process and a structure that makes sense, it was because we were concerned about the huge expenditures of taxpayers' money without any sort of conscious plan for job development.

And we were -- we wanted to put into place a certain structure in there that we could begin to influence the process of how that money was spent, because we've seen millions of dollars spent to build low-income housing that has not created the jobs that are necessary, and those families are in the same sort of situation that they found themselves 20 years ago because they haven't had the ability to increase their income and their family's ability to be able to change their way of life.

So if you heard and people kept tabs and did not confuse what we were talking about and put it into a Council versus whatever it is, I think this Council was talking very clearly as to -- that we want to be able to influence and come up with a new strategy to be able to create a new middle class, job development.

I think we were talking about the cost of construction in the City of Philadelphia that prevents development and the ability to be able to bring in developers so that they can build middle-class housing within Philadelphia, which they now can't, and how we restructure that. And I think people do have the will as long as that makes sense.

And we can see that there is a transition period in which people that are now poor are not just going to fall through the cracks and we're not going to be able to provide for that.

MR. LEVY: Councilman Ortiz, I'd like to address that in a simple way, which is -- and let me first say, I have enormous respect for anybody whose job it is to balance a budget of an organization. I direct a $12 million organization and I employ over 140 Philadelphia residents, and I would be very concerned if anybody said to me, Cut your budget and still try to provide services. So it is a very real challenge that this administration and this Council faces.

But in the handout I provided, I'd like you to look again at Page 10 and just look at those bars of office buildings and just remember the decade of the '80s, when we built Liberty One and Liberty Two and Commerce Square One and Two and the Mellon Bank Center. If you realize from the time we finished Commerce Square out at 21st and Market

Street, for the last ten years, there has not been a single new office building built in downtown Philadelphia. Meanwhile, there have been 12 million square feet of new space built in the Pennsylvania suburbs -- that is 12 Liberty Places. Every Liberty Place is 5,000 permanent job, let alone the construction jobs, you know.

So that if you look at that 12 million square feet and you look at the vacant parcels between PECO and Commerce Square and you look at the vacant parcels on Arch Street and you imagine every one of those as containers with 5,000 jobs, and recognize every one of those containers is 2,000 neighborhood jobs -- 42 percent of all jobs in the City are here in the downtown; that's private-sector jobs.

I think a neighborhood transformation strategy is key and I applaud the neighborhood to that. I would go as far as to say that the key to a neighborhood transformation strategy is to cut the wage tax and generate jobs.

Thank you.

MR. WEINTRAUB: Councilman, if I can just add to what Mr. Levy and Mr. Katz and

Mr. Thornburgh said, I think you've really put your finger right at the nub of one of the important issues here, and that is the job-creation question.

Back in 1993, former Councilwoman Fernandez was asked by then-Council President Street to chair a select committee on business reform. I was privileged to serve on that committee, as was Councilman Nutter, and I think Council President Verna was on that committee as well.

One of the cornerstones of that report was a new-jobs credit for creation of new jobs in Philadelphia. That, among others' recommendations in that report, had never been implemented by -- whether it required State legislation or Council ordinance, they have not been implemented. Controller Saidel's report also recommends the new-job credit.

I would urge this Council to look at the Fernandez report and to look at the recommendations in there. Now, quite a few of those recommendations have already been implemented through the Rendell and the Street Administrations. But to the extent that those recommendations have not been implemented, I would urge Council to look very closely at them and to enact whichever ones would be job-creating, and I suggest to you that many of them would be job-creating.

You asked a question about timing of them and how quickly the jobs would get created. I don't know that anybody could predict that but, like Mr. Levy said earlier, we can look to history to see what we might expect in the future.

A number of years ago, the Commonwealth of Pennsylvania enacted a new-job credit. We know that that credit did create new jobs within the Commonwealth of Pennsylvania. So we could go -- and we should be able to obtain information from the Commonwealth as to, you know, numbers of jobs created by the credit, how long it took for those jobs to come into place after the credit was enacted. So I think that there can be some information available to answer some of those questions.

Lastly, I would, you know, also suggest that, you know, one of -- since everybody's also raising the question of the expense side of the budget, many of the concerns which you and

Councilman Nutter have articulated have been on the social-services side and the costs there. Well, it would seem to me -- and, again, this is more anecdotal than with hard numbers -- that with the creation of the new jobs, that there wouldn't be as much of a need for some of the social services.

Now, there might be some expense-savings by creating jobs 'cause some of the jobs that would be created would be going to the people who would be the users of these social services, so you have a balancing effect there, that the jobs would also help on the expense side of the budget as well.

COUNCILMAN ORTIZ: Thank you.

COUNCIL PRESIDENT VERNA: Thank you.

Are there any new questions?

The Chair recognizes Councilman Clarke.

COUNCILMAN CLARKE: Thank you, Madam Chair.

I'm going to be asking this question of Mr. Saidel, but I'd like to ask Mr. Levy this question, given that he's had the experience of running a miniature government here in Center City, and I know it quite well.

One of the issues with respects to our

tax-reduction package is what impact it will have on the delivery of services to our citizens, and I noticed in Mr. Saidel's proposal, he talks about the City of Philadelphia's conservative revenue projection, and it talks about us having a higher fund balance that is either published or anticipated.

But what I wanted to get a sense of is how realistically or has thought been given to us reducing employees but keeping the same level of service or increasing the level of services to the citizens of Philadelphia and doing it in a more efficient way. Do you have any ideas of what we can do if we decided to go that route?

MR. LEVY: Councilman Clarke, I mean, first of all, I would say that, I mean, every one of us here are recommending a growth strategy that would increase tax revenues to the City. So I thin, again, it's circumstantial, but we think that while there is a transition problem here, which is a real problem, if you simply look at employment growth elsewhere, the reason why this is being proposed by many people is to say we will increase the tax base of the City and potentially be able to provide a higher quality of service.

So that I don't think tax-cutting and service-cutting go hand in hand at all. I think you can have a broader base and provide better services.

There are clearly lots of ways of efficiency; I mean, we balance that all the time. The mechanical cleaning equipment you see us having on the street probably can do the work of three sidewalk-sweepers. We choose to have people out as sidewalk-sweepers because visibility matters and frequency matters, but mechanization clearly is one way of doing that, and that has to be balanced. I mean, clearly I think there are major portions of this city which require a much higher level of service.

And so I think to the extent that you grow the tax base, you can increase services where they are needed.

So I would avoid an either/or choice here. We need to provide better schools, we need to provide more police, we need to provide better parks, and I certainly propose a growth strategy so we can do that.

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COUNCILMAN CLARKE: Okay. With respects to that, I think that you will agree that the short-term effects of tax reduction are immediate. If we reduce taxes, however significantly, the effect will be the next fiscal year. The ability to grow our revenue as a result of that tax, I think, will be the longer-term.

So my question is, how do you do that and no effect services? because realistically, I mean, we're not going to increase the revenue stream by growing jobs in the short term -- I mean, within the next two or three years, even if we agree to have a substantial --

MR. LEVY: Again, I would not pretend to be a municipal-finance expert; there are many people who could do this much better than I.

But I would just say if you look to the west of this building and look at the office buildings there, there are 30 to 40 major tenants who, over the next two or three years, will be making decisions either to renew those leases, move elsewhere, or expand here in the City.

So I think a tax cut could send an immediate message to employers here as to whether

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they're expanding, whether they're renewing, and I'd let others who know the technology in the start-up sector address that better, but there are a whole set of decisions that hang in the balance right now in which this city's tax policy affects the location decision of leases up and down West Market Street this year and next year and the year that follows.

COUNCILMAN CLARKE: Okay. So the answer to my original question with respects to service delivery depends more on the ability to grow revenues as opposed to streamlining --

MR. LEVY: Well, there are many people that could address the issue of transition, but I just -- I think that you can send a signal that will affect business decisions tomorrow and the next day. I think there are people who might be able to address other portions of this better than I.

COUNCILMAN CLARKE: Okay.

MR. LEVY: Councilman, I'm not going to suggest that I'm better qualified to answer that question you're asking, but I know there are people who are, and it strikes me that incenting managers in City government to find ways to deliver at least the same if not a higher quality of service at a lower cost is a powerful message for this Council to give to the Administration and to the leadership of the Administration.

And I think you can look at a lot of cities, including this one, when its back was against the wall, as you well remember, in 1990 and 1991. There were cuts and there were some changes in the way services were delivered. And my general sense, though, is that the City came through it pretty well, and that there is a sustainability here, at least from the standpoint of delivering service that existed through a very substantial one-half percent cut in the wage tax and some other cuts as well.

I think that unless we find a way to balance tax cuts and delivery of service through efficiency and productivity and just a general change in attitude, it will be very difficult politically to get the support for wage-tax cuts that are required. But if that's something that this Council decides it wants to do, I believe the talent and the resources and the best practices are out there to be implemented by Philadelphia City government managers to do that.

COUNCILMAN CLARKE: Yeah, we will be asking those questions during the course of the budget hearings. I just asked that question today because that is a key component in the tax reduction initiative.

Thank you, Madam President.

COUNCIL PRESIDENT VERNA: You're welcome.

Mr. Levy, what is the vacancy rate of the office buildings that we have?

MR. LEVY: At the end of 2000, we were quite good; we were at about 7.5 percent. Right now, at the end of 2001, it's probably 12.5 percent. That is tracking a national average, though. Philadelphia -- I mean, that happened across the country with the recession that began in the beginning of March of '01, and then the after-effects of 9/11 have had that effect.

So our vacancy rate in the commercial-office sector is almost identical to the national average of about 12 percent.

COUNCIL PRESIDENT VERNA: Thank you.

Are there any other questions of this

panel?

(No further questions.)

COUNCIL PRESIDENT VERNA: Seeing none, gentlemen, thank you very much.

Our next witness?

MR. MCPHERSON: Joe Vignola.

(Witness comes forward.)

COUNCIL PRESIDENT VERNA: Good afternoon. thank you for your patience. Good seeing you.

MR. VIGNOLA: Good afternoon, Council President Verna and members of City Council My name is Joseph C. Vignola, and I am the executive director of the Pennsylvania Intergovernmental Cooperation Authority (PICA), and I am pleased to testify regarding the findings and recommendations of the City Controller's tax structure analysis report.

I would like to address two issues that the PICA Board believes are critical to today's discussion: The value PICA places on tax reform in Philadelphia and the state of Philadelphia's finances.

In almost every staff report and white paper issued by PICA, we have called for a simplified tax structure and a reduction of the taxes in such a way as not to jeopardize the fiscal health of the City. We commend the Controller's Office for issuing the most comprehensive strategy for reforming Philadelphia's difficult tax structure since the advent of the tax cuts in mid-1990s.

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 as some businesses left. Higher taxes caused more business to leave and individuals to leave as well, eroding the tax base. The City responded by further raising taxes, and the vicious cycle continued.

In the 1990s, with the help of many partners, including PICA, the City began to attempt the positive tax cycle. The City lowered the tax rates and the tax base grew. It is time for the next round, and the ball is in your court. We believe that Philadelphia can become the case study for the benefits of a positive tax cycle.

The incremental tax cuts were an important policy step at a time of economic uncertainty.

They effectively sent the message that Philadelphia's taxes were headed in the right direction. The City now has the opportunity to reinvigorate that "wow" factor, to put the word out, We want your business. This message will be especially powerful at a time when many governments are facing tax increases to cover budget deficits due in part to the economy and in part to overly aggressive revenue projections.

Philadelphia's 11-year record of responsible forecasting has put us at a better position than many other municipalities.

It is also important to know note that there will be some supply-side effects to these tax cuts. The Administration has routinely touted the impact that the incremental tax cuts has had on improving the City's economy and bringing in jobs. This has helped raise the City tax base. Every year the wage tax rate has been cut, wage tax collections have increased.

Although we do not consider all of the money identified in the Controller's report to be available, the opportunity exists for tax cuts beyond the currently prescribed incremental tax cuts described in the City's Five-Year Plan.

PICA's success throughout its existence has been predicated on a responsible approach to budgeting and forecasting. The strength of the Controller's report is that each recommendation stands on its own. We would recommend a stage implementation of tax reforms and tax cuts so as to minimize the risks associated with these changes and to allow for the supply-side benefits to offset further cuts. Specifically, the PICA Board recommends significant business-tax cuts in the first year to reinvigorate the message that Philadelphia has a tax-friendly place for business.

Our analysis of the City's fiscal health, which I will address shortly, should certainly permit cuts in the gross-receipts portion of the business-privilege tax and net-profits tax. The Mayor's Five-Year Plan, proposed two weeks ago, makes a reasoned case for significant cuts in the gross-receipts portion of the business-privilege tax. However, we believe the City can afford to move beyond incremental tax cuts.

A good first step in the staged implementation of a more business-friendly tax environment would be cutting the gross receipts to 0.163 percent in Fiscal Year 2003 rather than waiting until Fiscal Year 2007. Alternatively, implementing an incremental gross-receipts tax cut, as prescribed in a new Five-Year Plan, should not require a simultaneous freeze in the proposed wage-tax cuts.

Any revenue-neutral recommendation should be implemented immediately. Although conversion to a land tax has some merit and could dovetail nicely with the Neighborhood Transformation Initiative, PICA staff has some concerns regarding the initial cost of implementation, its citywide applicability and would suggest delaying such an effort.

We recognize that some of these changes require approval from the Commonwealth. Should the Administration and this Council choose to pursue these changes, the PICA Board is prepared to help promote these positions with the General Assembly.

Recently, the City has made much of the state of the City's finances. We have been in a national recession since March 2001. The attacks of September 11th hurt the tourism and transportation industries so critical to

Philadelphia's economy. Just last December, the City committed itself to an additional $45 million a year for the School District. PICA also remains concerned about the status of PGW, which has not been adequately addressed by the Administration and may now have its $45 million loan extended. We also note that the Five-Year Plan does not, and effectively cannot, include any increases resulting from future contracts with the City's uniformed and non-uniformed workforce.

On the positive side, despite the changes, the City economy continues to grow. Unlike past recessionary periods, Philadelphia has felt less of an impact than the national economy. In fact, although the November Bureau of Labor statistics reports indicated a year-over-year job loss, without the tremendous job loss in the airline industry, Philadelphia would have had a year-over-year growth.

PICA staff believes, as do many regional economists in the Federal Reserve, that the recession should be over by the second quarter of this calendar year. We also believe that the transportation industry will be bolstered by the

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hiring of security guards at the Airport, expected to begin in March 2002. These new higher-paying positions should generate higher wage-tax collections for the City as well as additional secondary economic boost.

Even before this expected surge, PICA feels it is important to point out that during this difficult period, the City's tax revenues have continued to increase. While the growth has not matched the Five-Year Plan projection of 2.66 percent growth rate from July through December 2001, tax revenues have grown at 2 percent. More importantly, from our perspective, PICA staff projects that if this growth rate simply holds steady, Fiscal Year 2000 tax and local non-tax revenues will end the year nearly $47 million over the original Five-Year Plan projections.

We consider this figure to be conservative, as it does not account for the continued recovery in the local economy, the multi-million dollar economic impact of the NBA All-Star Game, which was concluded this past weekend, and the increase in the real-estate tax revenues due to the increased assessments.

On the spending side, we believe that even with the additional monies for the School District and security-related expenses, the City will end the fiscal year at or below its Five-Year Plan projected level of total expenditures. These projections do not even take into account the millions of dollars in savings resulting from new efficiencies promised last August by the Administration.

The PICA Board's confidence has also been increased due to the proposed Rainy Day Fund legislation, which will provide a more meaningful emergency fund should the City experience unexpected economic woes.

In short, we believe the City's fiscal situation is remarkably stable, given the past year's events. This light, the debate over the City's tax structure and possible tax reductions is prudent.

The City surplus last fiscal year was $230 million, a drop of $65 million from the previous year mainly due to a change in accounting procedures. Without this one-year procedural aberration, PICA staff believes the actual surplus would have been anywhere from $314 million to $345 million.

Although a surplus is preferable to deficit, it is not ideal. Government is not a for-profit business.

The City has reached a critical point in time: We have so far weathered a recessionary period remarkably well; we have a significant surplus; and very shortly, a mechanism for building a true emergency fund. The time is right to responsibly invest our surplus money in ourselves through tax reform.

With that, I conclude my testimony and invite any questions you may have

Thank you.

COUNCIL PRESIDENT VERNA: Thank you.

Mr. Vignola, what additional tax reductions does PICA endorse?

MR. VIGNOLA: At this point, given the proposal of the Mayor and the Five-Year Plan submitted to City Council, what we're saying is to take the gross-receipts reduction that is to be phased in over four years, pursuant to the Mayor's submitted Five-Year Plan, and take it all in 2003.

We believe that the, quote, reduction in revenues, while gross, will, as a result of the increasing recovery in the economy and the fact that we have seen supply-side economics work in creating increases in wage tax revenues, will not show a diminimization in tax revenues for next fiscal year, and we can again, at this time next year, revisit implementing further reductions in the wage tax and further reductions in business taxes.

COUNCIL PRESIDENT VERNA: Thank you

The Chair recognizes Councilman Nutter.

COUNCILMAN NUTTER: Thank you, Madam Chair.

One, Mr. Vignola, I appreciate your forthright, open-minded, and fairly aggressive testimony. We actually need a little more of that kind of discussion around here.

Let me ask this question just from a historical perspective: Have there been in the past many disputes from a revenue estimate standpoint between the City and PICA over the past few years during your tenure over there, or do you guys and gals pretty much end up at the same place based on revenue estimates and expenditures?

MR. VIGNOLA: Given the fact that we look at revenues over a five-year period and not for each budget year, we have been fairly close. There were some disputes in the early years, when I was here in City Council and not at PICA, where there was some dispute as to the revenue estimates that the City was putting out were too high, given the stage of the City's recovery.

COUNCILMAN NUTTER: Okay. But overall, I mean, the City staff are hard-working people and they kind of know their business, and the PICA people are hard-working people and you know your business, is it fair to say that, for the most part I'm sure, a million here, a million there, you guys are pretty much on the same page in terms of the fundamental numbers and the analysis of what's going on with the City's budget.

MR. VIGNOLA: Yes. And even if our numbers were more aggressive in the City, we did not take issue with that, because the economy was still growing, and we were creating jobs in the City.

PICA feels that given the significant

surpluses that we have and given the, you know, the worst of all world -- September 11th on top of a recession -- and we still have growth year over year of 2 percent over last year's estimates.

COUNCILMAN NUTTER: Mm-hmm

MR. VIGNOLA: And we still have a conservative level of expenditures. As my testimony said, we believe it's time that we reinvest in ourselves and start cutting taxes further.

COUNCILMAN NUTTER: On Page 2 of your testimony and it's hard to belive, 'cause we were all here just yesterday for the start of the Five-Year Plan, but there's not a one to be found in the house, including on this mess of a desk of mine. You're saying that we should more aggressively reduce the gross-receipts tax to the -- according to the Mayor's plan, it would be 0.163 percent in FY '07; you're saying fast-forward that to FY '03

MR. VIGNOLA: Yes.

COUNCILMAN NUTTER: Do you recall what the Mayor's plan proposes the FY '03 number to be?

MR. VIGNOLA: I think it's 0.24-something,

something like that.

COUNCILMAN NUTTER: That's what I thought.

And then earlier actually in the testimony, you talk about -- you recommend a staged implementation of tax reforms and tax cuts. Have you taken this to the next level, and/or would you be able to show us what PICA thinks a five-year plan of tax reductions should look like, whether on the gross-receipts portion, the wage-tax portion, or, if you want to step out even further, on any other taxes, and show what the differences are in terms of the tax reductions' impact on the City, and then take a venture to guess what the true impact from a benefits standpoint would be on the City based on that schedule?

MR. VIGNOLA: When I referred to "staged," I was also referring to the various levels of proposals in Controller Saidel's tax-structure paper, and I was highlighting one of the taxes that he talked about saying, Well, let's do the gross-receipts tax. And if we are to believe ourselves, 'cause we always said that supply-side economics work, and it has been working on the wage-tax side, 'cause although we consistently cut the wage-tax rate over the past seven years, wage-tax revenues have been more each year.

COUNCILMAN NUTTER: Right.

MR. VIGNOLA: So I'm saying let's gross up the gross-receipts tax. If we all believe, as I believe, that whatever we cut the rate, the tax revenues for that sector of tax would also increase 'cause businesses tax would increase or a wage-tax increase, then let's go the next level and let's say, Let's take the wage tax, which is scheduled to be -- which was on a schedule to go out four years, well, let's re-implement that and take a portion of that, and maybe since we're at the '07 level of the gross-receipts tax, let's look at the net-profits tax and give some more relief to the business.

COUNCILMAN NUTTER: Right.

MR. VIGNOLA: That's what I'm talking about "staged," that it doesn't have to be done all at one time; it can be done compartmentally.

COUNCILMAN NUTTER: Okay.

MR. VIGNOLA: And see if the tax revenues and the job sectors respond.

COUNCILMAN NUTTER: Could you, again, in the context of the previous requests both of the earlier panel and now in our discussion, one, I would ask if you could -- and I think you were here earlier for that last panel.

MR. VIGNOLA: Yes.

COUNCILMAN NUTTER: If you could work with that group. But also, again, within a two-week, maybe a four-week timetable, have a series of options with the various taxes, with the actual rates, with what the revenue impact would be, and lay out a schedule for five years of a variety of different tax cuts and tax-cut options.

MR. VIGNOLA: On behalf of PICA, I would feel more comfortable in working with the group in reviewing their figures --

COUNCILMAN NUTTER: Okay.

MR. VIGNOLA: -- to see what they are proposing, given the level of expenditures that the Mayor is proposing, balance the Five-Year Plan.

COUNCILMAN NUTTER: Okay. So let me make sure I understand. They would do whatever they would come up with, and you're saying that you would be pleased to review what they have.

MR. VIGNOLA: Right.

COUNCILMAN NUTTER: And would you be in a position -- I know it's a bit of a tightrope -- without locking yourself into anything, but at least -- it's kind of like if someone had an idea that was just so totally beyond reality, at least advise, "I don't think you should do that."

MR. VIGNOLA: Right. One of the proposals, going back two summers ago, that Mr. Thornburgh and Mr. Levy made was significantly cutting the wage tax so much so that the City, their argument was, for about five to six years would be running deficits.

COUNCILMAN NUTTER: Okay, right.

MR. VIGNOLA: And I was at that presentation, and they asked me a question about that, and I said that is not something PICA could support.

COUNCILMAN NUTTER: Right.

MR. VIGNOLA: Because our statute requires us to cause the City to have a balanced budget.

COUNCILMAN NUTTER: Right.

MR. VIGNOLA: So in that context, yes.

COUNCILMAN NUTTER: I understand.

MR. VIGNOLA: I will look at their revenues, knowing what the Mayor has speculated his expenditures will be over the five years.

COUNCILMAN NUTTER: Right.

MR. VIGNOLA: The specific detail being the current budget-year, but extrapolating those costs, as he has to pursuant to the PICA statute, we could then say that what they're proposing in this revenue estimate does cover the cost.

COUNCILMAN NUTTER: Gotcha.

Two last questions. On Page 4 of your testimony, you say that based on -- "More importantly from our perspective, PICA staff rejects that if the growth rate simply holds steady, Fiscal Year 2002 tax and local non-tax revenues will end the year nearly $47 million over the original Five-Year Plan projections."

Now, what jumped out at me about that was my recollection from some of the materials and the speech was that the change in the tax-reduction schedule from the previous Five-Year Plan seems to now indicate that due to the reductions in the gross-receipts tax, stop the reductions in the wage tax, and over that five-year period, the City would save $50 million.

Do I read this to understand, based on

what you're saying, that we could still do that schedule and not be financially harmed because you believe that we're going to have, in essence, an extra 47 just out of this year?

MR. VIGNOLA: Yes, sir.

COUNCILMAN NUTTER: Okay.

MR. VIGNOLA: Now, Councilman Nutter, you have to remember that during questioning yesterday, Mr. Dubow said that this is $47 million over the currently approved Five-Year Plan, that in the Five-Year Plan that was submitted for your review two weeks ago, when the Mayor gave his budget, they adjusted this number because they raised their base estimates.

COUNCILMAN NUTTER: Right.

MR. VIGNOLA: But we still believe that through a combination of whatever is left over and the fact that expenditures are not going to exceed the rate at which they've been spending now, there will be that extra money available to pay for a gross-up of the gross-receipts tax cut in '03 out of extra money this year that has not otherwise been appropriated or accounted for by this Council or this administration.

COUNCILMAN NUTTER: Well, maybe you can clear up one other thing from yesterday, 'cause I was left with the impression to some extent that Mr. Dubow indicated that your numbers were possibly not the most up-to-date because you made your calculations based on last year's estimates and you didn't have the benefit of their knowledge of this year's estimates in terms of making your pronouncements or projections.

MR. VIGNOLA: The only numbers that we are missing are the January numbers, which Mr. Dubow said he has, and unfortunately, given the schedule that we all get, and that includes City Council as well as us, although the City may have them in January, we don't get them distributed until February 15th.

COUNCILMAN NUTTER: I understand.

MR. VIGNOLA: So he was indicating that January wage-tax collections were down. There could be very many reasons for that; one of it being there were only two two-week pay period cycles in this January, but we will catch up by the end of May because May has three.

COUNCILMAN NUTTER: Yeah, I wouldn't know

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about that. I don't know how many pay periods there were in January 'cause I didn't participate in any of them.

My last question is, at the bottom of Page 4, you talk about the City surplus last year fiscal year was $230 million, a drop of $65 million from the previous year due mainly to a change in accounting procedures. What was the change?

MR. VIGNOLA: The GASB 33, General Accounting Services Board, proposed a ruling some two years ago that said effective with fiscal years ending in '01 that an accrual period of revenues that would come in, which used to extend 60 days beyond the fiscal year and then even further, had to be strictly enforced. So although -- and it deals more with human-services money.

We know we're going to get paid for the money we expended for human services --

COUNCILMAN NUTTER: Mm-hmm.

MR. VIGNOLA: -- in fiscal year 2001. And by the time the State gets around to paying it, it's September and October, and that's been tradition.

COUNCILMAN NUTTER: But you counted it for the past.

MR. VIGNOLA: Right. The GASB said if you don't have it within 60 days, by the end of August, you can't count it in closing your books for the fiscal year that ended June 30th.

COUNCILMAN NUTTER: Okay, and you're saying as a result of that change --

MR. VIGNOLA: Our surplus is down.

COUNCILMAN NUTTER: We still receive the money but the number went down.

MR. VIGNOLA: Correct.

COUNCILMAN NUTTER: And without that change, you're saying, the number would have been upwards of 300 million-plus.

MR. VIGNOLA: Correct. And next year, we may see that catchup because the money that we should have gotten last year came in this year, and the fact that we're not getting this year's money until next year doesn't matter 'cause you got last year's money this year.

COUNCILMAN NUTTER: Right, gotcha.

MR. VIGNOLA: See how clear it is, you follow me.

COUNCILMAN NUTTER: Absolutely. I was

right there with you.

Thank you, Madam Chair.

Thank you, Mr. Vignola.

(Short break taken.)

(Proceedings resume.)

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COUNCILMAN COHEN: Madam Chair, I think the stenographer is back.

COUNCILWOMAN BLACKWELL: Thank you very much. We will resume our hearing.

Councilman Cohen, you had questions for Mr. Vignola.

COUNCILMAN COHEN: Yes. Thank you, Madam Chair.

The last time I heard the phrase "supply-side economics," it was a pejorative term because it defined an economic policy which resulted in a tremendous increase in deficit financing at the federal level, and the only recent example of that seemed to be in the current President Bush's proposal, which immediately got rid of a 3 or $4 million surplus.

Now, are using it -- in what sense do you use the term? How does it differ from those other applications?

MR. VIGNOLA: I think the term you're referring to is supply-side Reganomics, words like that.

We're using it in the same sense, but there is a theory that says that if you cut tax rates, tax revenues do not necessarily go down. And for the past seven years, we have cut the wage-tax rate, and for the past seven years, wage-tax revenues have increased. That is the sense in which I'm using the words "supply-side economics."

COUNCILMAN COHEN: Is there a point at which that would be reversed? For example, if we eliminated the wage tax, I don't think there'd be any income from it.

MR. VIGNOLA: I think it's an inverse curve. As you approach zero, the growth in revenues becomes less and less, but no one knows where on that curve it's going to occur. But what you try to do is staged, gradually lower it till you hit that point and, then you decide what you want to do further to reduce taxes.

COUNCILMAN COHEN: So you measure -- from a point of view of total return from the tax, you're saying that at least up to some point, you increase the return by lowering the rate.

MR. VIGNOLA: Yes, sir.

COUNCILMAN COHEN: And so in that point of view, you can be called a "tax cutter," but from the point of view of the amount of taxes the particular -- the amount of revenue the particular tax raises, the opposite happens. You are, in fact, increasing the tax burden of the whole population by reducing the individual tax burden.

MR. VIGNOLA: Councilman, you and I are veterans of the political wars of Philadelphia. If we cut the tax rate, we're called "tax cutters." The fact that more money comes in, nobody really cares about. If their rate's going from 4.96 percent to 4.5 percent, we cut taxes, and that's the message.

COUNCILMAN COHEN: Mm-hmm. Well, it's an interesting approach. To increase the volume of taxes the government gets but get credit for being a tax cutter

MR. VIGNOLA: Because there are other variables. If you go from having 100 jobs to 150 jobs and your rate is 4.96 percent on 100 jobs, but now you have 150 jobs and you're rate is 4.5 percent, when you do the multiplication, you have more revenue because you have more jobs, and that's what supply-side is saying, is that if you cut the rate, there's going to be another benefit, and that benefit may be the creation of more jobs or at higher base on which the lower rate is applied, which means more revenue.

COUNCILMAN COHEN: But in the application by President Regan and the current President Bush, that does not seem to have been the result, and is that why you said your version of supply-side --

MR. VIGNOLA: With President Regan, it didn't, because it goes to your next point. To keep on paying for the escalating costs of government or the programs he wanted to fund, he borrowed, and that is bad because in the long run, it catches up to you.

COUNCILMAN COHEN: Well, let me ask you this question that concerns me. Mayor Street has proposed that to deal with the current school deficit of approximately $200 million, a deficit accumulated over many years, that what we ought to

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do is to issue 30-year bonds, forget the legality questions of whether we have the authority to do the 30-year bonds, but he proposes 30-year bonds, which will cost the City somewhere between 20 and $25 million a year for the next 30 years, just to reduce the deficit.

It would seem to me to make much more economic sense to defer dealing with that short-term deficit because there's no indication we've solved the structural deficit, so there may be brand-new deficits arising immediately upon solving the two-year deficit.

Now, I don't know what brand of economics that involves, but do you have a thought on that?

MR. VIGNOLA: If you're quoting from the Regan years and what George Bush-41 called it back in 1980, he called it "voodoo economics," but let's stay away from that and say, for instance, if the commitment from the City is $45 million a year from now on into the future, then the School Board could decide or how they want -- or the School Reform Commission could decide how they want to apply that $45 million from the City and if they want to use part of that money to solve their Constitutionallymandated requirement, that every year, there be a balanced budget; i.e., a budget that does not contain a deficit. You know, it's legal and it's not hurting us, you know, it's not hurting the City anymore 'cause we're spending the $45 million. They want to spend the $45 million to amortize the cost of a deficit over however number of years it is.

I mean, that's a policy decision and that's a decision you and the Mayor and the members of the School Reform Commission -- as the players in this, you as elected officials, you and the Mayor and the School Reform Commission as the, quote, governing body, have to deal with it.

COUNCILMAN COHEN: Well --

MR. VIGNOLA: From my standpoint as the oversight board, I'm looking at, can the City afford the $45 million expenditure each year? And my answer to that is, based on what I have seen, yes, it can

COUNCILMAN COHEN: And that's in addition to the expenditure on NTI

MR. VIGNOLA: Yes, sir.

COUNCILMAN COHEN: And the stadiums?

MR. VIGNOLA: Yes. Stadiums present a different problem. As I testified here December a year ago, my concern is that the Mayor put out in regard to the stadiums that the stadiums would pay for itself over the lifetime of the transaction. I Disagreed with it then, I disagree with it now.

The way the transaction is structured, we won't feel those added costs until five to seven years from now. But we will see, in my opinion, an increase in costs that are not covered by increase in stadium revenues for the two new stadiums.

I think I was right then, I think I'm right now.

COUNCILMAN COHEN: And what would be the impact, then, on the economic health of the City?

MR. VIGNOLA: Again, it depends on the state of the economy. If we are successful in wowing business by doing away with the gross-receipts tax, further reducing businesses, and we're fortunate to start going above the 700,000 job mark in Philadelphia, it may be a blip on the radar screen. If we fail and we lose our middle-class income base, we may have hell to pay.

COUNCILMAN COHEN: What's the PICA tax?

What does that amount to?

MR. VIGNOLA: The PICA tax is 1.5 percent of what you and I knew as the Philadelphia wage tax. The Philadelphia wage tax for Philadelphia residents is bifurcated. For the next fiscal year, it will be 3 percent Philadelphia wage tax, 1.5 percent PICA tax making up the 4.5 percent.

COUNCILMAN COHEN: And what does that come to currently in dollar amounts?

MR. VIGNOLA: $280 million gross, gross.

COUNCILMAN COHEN: In PICA tax? And where does that money go?

MR. VIGNOLA: That money first goes to retire the bonds that PICA issued at the request of the City in 1992, 1993, and 1994. In June of this year, we will make our last deficit-reduction bond payment. After June of this year, the debt service will go from approximately $110 million to somewhere in the $80 million range.

COUNCILMAN COHEN: And will that affect the amount of the PICA tax?

MR. VIGNOLA: No. The PICA tax is 1.5 percent, and that cannot be changed. That is contractual, it is contractual between the City and

PICA and contractual by third-party beneficiary contracts -- yeah, I knew law school would come in handy for us both -- to the bondholders. We cannot change that without violating the bond convenance.

COUNCILMAN COHEN: What does the additional money go to?

MR. VIGNOLA: After the debt service is paid, it's returned on a monthly pro rata basis to the City account for the City to spend on its general operating, day-to-day financial needs.

So if you were getting paid, part of the excess PICA tax would go to your salary, but since you haven't been paid since October, it just goes to pay for gas in your car.

COUNCILMAN COHEN: Is that figure the difference between what we pay now and what will no longer be required for the debt payment? Is that included in revenue in one form or another in the City's five-year projection?

MR. VIGNOLA: Yes, sir, it is, yes. From other governments.

COUNCILMAN COHEN: So there will be a $30 million increase.

MR. VIGNOLA: That's already in the

Five-Year Plan and it was in last year's Five-Year Plan as well. This is just another plan.

COUNCILMAN COHEN: But we haven't got the money until next year.

MR. VIGNOLA: Well, because the Five-Year Plan, only the first year is the budget. And this is --

COUNCILMAN COHEN: How many years were the bonds?

MR. VIGNOLA: The deficit-reduction bonds were ten years.

COUNCILMAN COHEN: Was that because of the State law that limits --

MR. VIGNOLA: Yes, sir.

COUNCILMAN COHEN: Do you know of any law that permits the issuance of a 30-year bond by the City?

MR. VIGNOLA: Yes, sir. Most of our bonds can be upwards of 30 years. It's the municipal government -- I'm looking for them, but it's State statute that allows local governments to issue revenue bonds, and it's the State law that allows the City of Philadelphia to issue general-obligation bonds.

COUNCILMAN COHEN: How about school districts?

MR. VIGNOLA: Same thing with the school districts, and that's the School Code of 1949, as amended.

COUNCILMAN COHEN: That permits a 30-year bond?

MR. VIGNOLA: Yes, sir. Up to 30 years.

COUNCILMAN COHEN: Up to 30 years.

MR. VIGNOLA: Up to 30 years.

COUNCILMAN COHEN: And your feeling is -- when I say "your," I mean PICA, 'cause you're here as a representative of the PICA board. Your feeling is that with this additional obligation of $45 million more -- it's actually 60 million more 'cause it was the 15 million that's been paid for a number of years not out of tax millage directly but out of specific contributions.

MR. VIGNOLA: Yes.

COUNCILMAN COHEN: And under State law Act 46, the 60 million becomes required -- once the State takes over, that 60 million becomes a repetitive obligation of the City.

MR. VIGNOLA: Well, the way I understand

the way the additional $45 million was pledged is that the State is seeking a waiver from Act 46, and unless the State agrees to the waiver of Act 46 in regard to the $45 million, that may not be paid over.

But the 15 million that started when I was in Council with you, Councilman Cohen, is grandfathered in by Act 46, and the City can't take that away now.

COUNCILMAN COHEN: And as of now, we know of no waiver from the State yet.

MR. VIGNOLA: That is correct, but that is what I understood the Mayor said in his budget address, and if I understood Chief of Staff Wilkerson yesterday during her testimony here, she said that the Administration is going to seek such a statutory waiver.

COUNCILMAN COHEN: Now, the PICA Board is technically a State board?

MR. VIGNOLA: Yes, sir. We're by law, not technically, we are a State board.

COUNCILMAN COHEN: A State board. Well, it seemed to me the witnesses in the earlier panels kept speaking of Philadelphia as if we had full power to rewrite laws and could control income, and I may have missed somebody who may have said it, but during the lengthy time I was here, I didn't hear any effort being directed or any intention being paid to the State's role in the finances of Philadelphia.

In fact, for example, that Philadelphia being a county as well as a state [sic] the only one in the Commonwealth, we're not supported by any outside people who live outside of Philadelphia. Pittsburgh gets help from the rest of Allegheny County, and most of the cities throughout the country, like Atlanta, gets help -- it's part of a county.

So I think any analysis, to be meaningful, has to take that into account.

MR. VIGNOLA: Well, Councilman, that's not true because we have a nonresident wage tax. If you work in the City and don't live in the City, you pay 3.8-some percent in wage tax. So, you know, you can't say that.

COUNCILMAN COHEN: You can't say what?

MR. VIGNOLA: You can't say that we don't have support from the suburbs, that we don't have

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financial support.

COUNCILMAN COHEN: We have some.

MR. VIGNOLA: Well that "some," I think, is over $200 million a year in wage-tax revenues. That's a substantial amount of money, sir.

COUNCILMAN COHEN: Yes.

MR. VIGNOLA: And that's always -- and that's a big bone of contention with people in Harrisburg and people who live in the suburbs.

COUNCILMAN COHEN: But that to me does not serve as any basis for the State refusing to follow the Supreme Court order on financing the courts.

MR. VIGNOLA: Well, the Supreme Court has to issue a final order. I don't disagree with you. If the State funded the courts in Philadelphia and funded all of the other judicial districts, the City could save upwards of $200 million, and with that $200 million, you could do a lot for public education and you could to a lot to cut the taxes, but the Supreme Court hasn't ordered the State to do it either, so we're hamstrung by this government

COUNCILMAN COHEN: What do you mean when you say you thought the Supreme Court had issued a decision?

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MR. VIGNOLA: No, sir, it has not. It only took Justice Monamurro (ph) -- former Justice Monamurro made some findings of fact. The only implementation of the findings fact was Stage 1, in which the General Assembly funded statewide some $18 million to take the top-level court administrators in each judicial district and remove them from the county payroll -- or in the case of the City of Philadelphia, the City payroll -- and transfer them to the State payroll and make them State employees.

That's the only thing that's been implemented as a result of Allegheny I and Allegheny II.

And the two lawsuits that the courts brought against the City of Philadelphia in the last two years, the mandamus actions, the last two years of the Rendell Administration, are still pending before the Supreme Court of Pennsylvania

COUNCILMAN COHEN: Mandamus actions to require the --

MR. VIGNOLA: No, they were mandamus actions to require local government, this City Council and -- well, the former City Council and the former mayor of Philadelphia to fund the court system, because you have to recall for Fiscal Year 2000 and for Fiscal Year 1999, you did not fund the court system as part of the budget and Five-Year Plan.

COUNCILMAN COHEN: And then we were required by the court to do that.

MR. VIGNOLA: Well, no, it was a gentle person's agreement that you would provide the funding necessary to keep the courts in business while the matter ran itself through litigation.

COUNCILMAN COHEN: All right. You've been very helpful in updating the level of the court action as well as the other answers you gave.

Thank you very much, Madam Chair. That concludes my questions.

COUNCILWOMAN BLACKWELL: Thank you.

Any other questions for Mr. Vignola?

(No further questions.)

COUNCILWOMAN BLACKWELL: Thank you.

MR. VIGNOLA: Thank you.

COUNCILWOMAN BLACKWELL: Eric Schlecht, John Barry, Witnesses 13 and 14.

(Witnesses come forward.)

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COUNCILWOMAN BLACKWELL: Good afternoon, thank you for your patience. Would you identify yourself for the record and begin your testimony. Thank you.

MR. BARRY: Good afternoon, Madam President and members of the Council. Thank you very much for having me. My name is John Barry, and I'm the Director of Research and Chief Economist of the Tax Foundation. The Tax Foundation is a nonprofit, nonpartisan research and public education organization that has monitored fiscal policy at the federal, state, and local levels of government since 1937.

In short, there is much to praise in the Controller's study and recommendations. My job at the Tax Foundation is to look at tax policies at all levels of government, literally hundreds a year, and I was struck by the thorough analysis and the economically-sound proposals in this report. In fact, there is a great deal that federal law-makers, not to mention other city councils and stat legislators, can learn from the approach taken here.

The Controller's report does an exhaustive

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job putting Philadelphia's overall tax environment in perspective. The general conclusion is that the City's tax structure contributes to inhospitable environment for businesses and residents. The Tax Foundation's own research unfortunately supports this unfortunate conclusion.

Each year we calculates Tax Freedom Day for taxpayers for every state in the nation. Tax Freedom Day is the day when Americans will finally have earned enough to pay off their federal, state and local tax bills for the year. Last year, nationwide and for residents of Pennsylvania in general, Tax Freedom Day was May 3rd; Tax Freedom Day for residents in New Jersey was May 12th; in New York, May 14th; in Delaware, May 3rd; and Maryland, April 30th.

This indicates that from an overall tax burden standpoint, Pennsylvania's average nationwide is slightly better than its neighbors to the North. However, Philadelphia as distinct from the rest of Pennsylvania, is below average as a taxpayer-friendly locale. In fact, compared to the largest city in each of the 50 states and the District of Columbia, Philadelphia has the fifth highest tax burden; only Newark and the near vicinity is less tax-friendly. These facts would push the average Philadelphian's Tax Freedom Day well past May 3rd, most likely somewhere closer to the middle of the month, and that would put Philadelphia at the bottom.

So while Philadelphia has a lot to offer residents and businesses, a tax-friendly environment is not part of the attraction. For this reason alone, tax relief would be a welcome initiative.

And let me highlight a few particularly noteworthy aspect of the Controller's plan and put this in the context of looking at hundreds of plans at the federal, state, and local level.

First, the plan is based on tax relief, not tax increases. In this time of tight state and local budgets, there's considerable pressure on lawmakers to increase taxes, and this includes the postponement of the scheduled tax cuts. This is exactly the wrong approach because it places governments and their budgets ahead of people and theirs.

The correct approach is that taken in the

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Controller's report: Tax relief, particularly broad-based tax relief, aimed at small businesses and entrepreneurs helps spur economic recovery and job creation. This is an approach that has its priorities straight.

The Controller's plan is, as I just mentioned, based on broad-based tax relief, and this is good compared to tax relief that is targeted or specific tax deals made with specific taxpayers. There is always the temptation, especially at the local level, to focus tax breaks on hot industries or even existing companies that promise large employment and hefty salaries. The problem with such targeted tax policies is that they assume that policy-makers can predict which industries and which companies will be successful.

A much better approach is to enact tax reforms that are generally business-friendly. This creates a fertile environment for all businesses and all industries, and produces overall economic growth that benefits everybody. This is the correct approach and it's one taken in the Controller's report

Third, I was struck that the Controller's plan is particularly jobs-oriented. The Controller is right to focus on business taxes that get in the way of entrepreneurship and job creation. Some may observe that giving tax relief to companies is unfair because it benefits big businesses. I think this overlooks two important facts:

First, businesses don't pay taxes, people pay taxes, and any tax relief extended to businesses is passed along to employees in the form of higher wages, customers in the form of lower prices, and/or workers saving for their retirement through mutual funds;

second, businesses are the job engine of the economy, and tax relief means very little to people if they do not have a job or an income.

Anything you as a City Council can do to create a business-friendly environment will be good for jobs, good for growth, and good for people.

For all of these reasons and more, the Controller's recommendations are sound from a principal tax and economic perspective. Tax relief of the nature described in the Tax Structure and Analysis Report would be a step in the right direction for Philadelphia, as it has been for

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other cities.

Let me just give you one example from my hometown of Washington, D.C. In D.C., the federal government and city government have taken several steps over the past five years to encourage economic growth and urban revitalization through tax reductions. This is a marked change from the early 1990s and 1980s when city officials felt that increased expenditures on massive urban projects was the only route towards revitalization. Through a $5,000 tax credit for first-time home buyers and a recently signed law giving tax credits to technology firms that locate in the District, we have seen a growth in businesses locating in D.C. and a revitalization of neighborhoods that were once dilapidated.

My point in highlighting these facts from my home town is not to encourage credits or other targeted provisions. As I stated, broad-based reforms of the kind recommended in the Controller's report is much more advisable. My point is only to make the point that tax relief makes a difference. Just imagine how much larger of an impact broad-based, growth-oriented reform such as that outlined in the Controller's report would have here in Philadelphia.

Again, thank you very much, Madam Chair. I appreciate the time.

COUNCIL PRESIDENT VERNA: Thank you

MR. SCHLECHT: Good afternoon.

COUNCIL PRESIDENT VERNA: Good afternoon. Thank you so much for your patience.

MR. SCHLECHT: Thank you. I'd like to thank the City Council and the Controller for asking me to be here today and providing me this opportunity. My name is Eric Schlecht, I'm Director of Congressional Relations for the National Taxpayers Union.

Just in a manner of introduction, NTU is a nonprofit taxpayer advocacy organization that lobbies for lower taxes and less government spending. We are the nation's oldest taxpayer advocacy group, formed in 1969. We have over 335,000 members nationwide, which makes us the largest taxpayer advocacy organization. If my memory serves me, over 9,000 of those members are in the State of Pennsylvania.

I have submitted a brief statement for the record that acts as basically a synopsis of my comments today, and I will just generally expand upon that statement for this afternoon.

My purpose here today is to offer NTU's endorsement for the proposed reforms that are included in the Tax Structure Analysis Report, in particular, those reforms that would lead to a net tax reduction rather than some of the reforms that point more towards a changing of tax burden, a robbing Peter to pay Paul, so to speak.

We offer our endorsement for several reasons: One, we believe that the taxpayers of Philadelphia are overtaxed and deserve tax relief and deserve to keep more of their hard-earned money; we also offer our endorsement because we believe that the reforms will lead to much needed economic growth in Philadelphia, and we believe this growth will lead to more jobs, a better standard of living, and increased revenues for the City, a matter of much debate so far today.

As has been pointed out by many of the speakers, but I will reiterate briefly, Philadelphia's tax burden, in comparison to other major cities in the United States, is extremely high. According to a study done in D.C. of several major cities, the overall tax burden on a family of 4 with an annual income of $50,000 in Philadelphia is the second highest in the country, ranking only behind Bridgeport, Connecticut.

Common sense and historical evidence will tell you that as tax rates increase, the tendency is to drive away residents, businesses, and investment; to wit, Philadelphia's population has decreased by 4.5 percent during the 1990s. According to the Census Bureau, only Cleveland, amongst the top 50 or so cities that the Census Bureau examined of metropolitan areas, only Cleveland had a lower rate of growth in personal income than Philadelphia did between the years 1997 and 2000.

So what to do about this? Well, we agree with the report from the Controller's Office that says the correct path to resolve this problem is tax cuts. We believe strongly that tax cuts will provided increased incentive to work and invest.

I'd like to briefly go over three examples where tax cuts have had the results that we've stated they will have and the Controller's Office suggest they will have, with an example from each level of government -- one from the federal level, one from the state level, and, again, one from the local level.

I will begin at the federal level and reflect back on Ronald Regan's tenure. When President Regan took over office in 1981, the economy was in dire straits; we had high inflation, high unemployment, we were mired in recession, which was called at the time, "stagflation," which, incidentally, any respectful Keensian (ph) economist would have told you that stagflation was theoretically impossible, yet there is was.

As most of us remember, Reagan responded to this crisis by initiating the largest tax cut in 35 or so years, which passed in 1981. The most important aspect of that in my mind was the marginal rate reductions. The result of that tax cut was that the average annual rate of growth between 1891 and 1989 in the United States was 3.2 percent compared to just a 2.8 percent rate of growth from 1974 to 1981. Furthermore, median household income rose steadily during the '80s, while the economy created 17 million new jobs in

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America.

The result of this growth in the economy was that federal receipts, and these receipts numbers I'm going to give you are in constant '96 dollars, so these are adjusted for inflation. Federal receipts in 1980 were $956 billion. Following the economic growth after the Regan tax cuts in 1989, federal receipts were $1.2 trillion. That's a 27 percent increase in receipts after cutting taxes. You'll find the same thing happened after the so-called Coolidge-Mellon tax cut of the '20s and the Kennedy tax cut of the early '60s.

I would also like to focus, just to give you an idea that this could work at all levels, on the state level upon example, but not the only example of how tax cuts could help a state and its constituents is Michigan. In the early 1990s, circa 1991, the economy in Michigan was also in dire straits. They had extremely high unemployment, their revenues were down. Governor Engler (ph) was then elected and over an approximately 10-year period, he cut taxes over 30 times -- I think he's up to 32 times now. That lead to ten years of unprecedented growth in

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Michigan, and they ended up ranking third in job growth over that period of time. Between 1990 and '96, unemployment fell from 11 percent to 4.5 percent in Michigan. The state budget went from $2 billion in the red in 1990 to a $1.1 billion surplus in 1996, which ranked it as the third highest surplus in the United States. During that same period of time, welfare cases decreased by 90,000.

Evidence of this working has occurred in other states as well. The ten states that significantly cut taxes during the 1990s grew their economies by 33 percent, whereas states that did not grew by only 27 percent -- that's between 1990 and 1995. Job creation was stagnant in tax-increasing states during that period of time, but in states that cut taxes, they had a 10.8 percent increase in job creation. Income for a family of 4 grew by $1600 more in tax-cutting states than in tax-raising states. And in 1990, the population of tax-cutting states grew by 7.4 percent, as opposed to 4.2 percent in tax-raising states.

So, clearly, the lesson taken from the states in the 1990s is that if you cut taxes, your economy will grow, your population will grow, your revenues will grow. If you choose not to do that or if you choose the opposite and raise taxes, the exact opposite will happen.

The final example I'd like to give is at the local level -- in this case, a city, a city to our north, New York City. Mayor Giuliani, after taking office in 1994, began a series of tax cuts. The National Bureau of Economic Research believes that the cuts implemented by Giuliani's administration's cuts in personal income tax rates led to the creation of 55,000 jobs; that represents one quarter of all jobs that were created in New York City since 1998. It also states that the city's tax cuts since 1995 have boosted private employment in New York City by 4 percent. Conversely, Mayor Dinkins raised taxes in the early 1990s, and that led to a sharp decline in jobs in New York City. Again, lower tax rates led to increased revenues. Since 1995, New York City's revenues are up 27 percent. To break that down further, net collections from personal income taxes, which represented over half of the city's overall tax cuts -- they were in personal income tax reductions -- the revenues for personal income tax collections increased by 65 percent.

So clearly, the greater you reduce the tax, the greater revenue expansion you will see.

In conclusion, I'd just like to once again state our endorsement of the reforms in the report and state once again that we believe that tax cuts included therein are good for taxpayers, they're good for business in Philadelphia, they're good for the economy of Philadelphia, and they're good for Philadelphia's budgets.

And I thank you for your time.

COUNCIL PRESIDENT VERNA: Thank you.

In your opinion, can you tell us what taxes should be cut? If we had a choice, say, from A to D, which do you think would be of top priority?

MR. SCHLECHT: I would say corporate and personal income tax rates are probably my top priority. The overall theme that I would stress most of all would be broad-based tax relief, rather than, as my fellow panelist said, stay away from targeted tax credits or rebates, that sort of thing, because they tend to have a much smaller effect on the economy and its growth and your revenues, and it also leads to something that is a bad in my opinion: It picks out winners and losers within the tax code. It would be our opinion that the tax code should not be used to promote social goods or ills or to, you know, to reward one class of citizen over the other.

And the other thing that does is, it creates an extremely complicated tax code. I mean, our federal tax code is the prime example there, wherein compliance costs increase, and ability to collect revenue, because of tax evasion, is severely diminished if you have various loopholes and credits.

I think my top priority would be corporate and personal income tax, but make sure any tax cuts you do are broad-based.

MR. BARRY: I would just second that. I would probably put in priority the wage tax and lowering that since relative to surrounding and other cities, that's particularly higher here in Philadelphia.

As I mentioned, I think it's important to remember that no matter what tax you're talking about, people ultimately pay those taxes, but when you look at the wage tax, lowering that would bring people back into the City. So it's not just jobs, but it's people living here and investing in the City, consuming in the City, etc.

COUNCIL PRESIDENT VERNA: Thank you.

The Chair recognizes Councilman Ortiz.

COUNCILMAN ORTIZ: That statement you just made, this city over the last 12 years, maybe more, actually maybe over the last -- since 1984 on, really has dedicated itself to attracting and building an economy, attracting developers, attracting businesses. And during the last eight years of the Rendell and the Street administrations, the Tax Increment Financing District of just giving tax breaks to developers across the board in certain areas and abatements, again, that have been two tools used extensively, you just made a statement that those tools should be avoided.

MR. SCHLECHT: Well, if that's what I said, then I overstated what I meant. They are preferable to no tax relief. Rather than high tax rates across the board, I would prefer to have

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certain abatements or Tax Empowerment Zones, or "Empowerment Zones," as they're sometimes called, because those can be helpful in attracting certain businesses that the city decides they want to draw in.

What I was trying to articulate is that it's my preference that you just reduce overall rates, both the wage rate and the corporate income rate, whatever that may be in this city, to attract all businesses so that you don't pick winners and losers. You don't say, We're going to give -- this section of the city's going to have one tax rate, this section of the city's going to have another tax rate; or this type of business has one tax rate or gets a certain tax break while another doesn't. I don't think that it's the business of government to pick winners and losers in the market. And, again, I think that leads to complexity.

So if I --

COUNCILMAN ORTIZ: So in essence, you level the playing field and let the market decide.

MR. SCHLECHT: That would be my preference, yes.

COUNCILMAN ORTIZ: Whether people come in or stay out.

MR. SCHLECHT: Sure. Why not lower taxes for everyone in Philadelphia and let everyone have a fair shot at making money and attract as many business as you can instead of targeting the businesses that you bring in.

COUNCILMAN ORTIZ: Thank you.

COUNCIL PRESIDENT VERNA: Thank you.

Any other questions of the members of the committee?

(No further questions.)

COUNCIL PRESIDENT VERNA: Gentlemen, thank you very much. I appreciate your patience.

MR. SCHLECHT: Thank you.

MR. BARRY: Thank you.

MR. MCPHERSON: Next panel: Josh Vincent, Nic Tideman, Joanne Denworth, Ed Schwartz, Jim Tayoun.

(Witnesses come forward.)

COUNCIL PRESIDENT VERNA: How many years ago was it that you proposed this, Councilman?

MR. TAYOUN: 1988, Your Honor.

COUNCIL PRESIDENT VERNA: Mr. Vincent, I think you're first.

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MR. TAYOUN: Could I ask the others to allow me to go first because we're on deadline at The Public Record, and I need to go right out again.

COUNCIL PRESIDENT VERNA: Okay, please proceed and identify yourself for the record.

MR. TAYOUN: My name is James Tayoun, a former Councilman and presently editor and publisher of The Public Record.

One of my hallmark efforts in Council was to promote the adoption of the land-value tax system. We urged this simply because of the tremendous track record that particular tax has had wherever it has been accepted and adopted, whether it be in the United States or in other countries around the world, particularly in the civilized West.

In Commonwealth of Pennsylvania when we began the effort, there were only six principalities or six cities that had adopted the land-value tax; today that number, I understand, exceeds over 20 and is close to 30, including some of the major other cities in the Commonwealth. Wherever that tax is imposed and replaces the present configuration of the property tax system, we have an increase in permits and an increase in turnover of properties.

And it can be summed up -- and I used to tell people, the John Wanamaker Building across the way then produced more taxes and revenue to the City of Philadelphia through its property tax than all the refineries in the City of Philadelphia did, because we don't tax the land; literally, we barely tax the land. And all the tanks and terminals and pipes and everything else on that land that make up a refinery were not taxed; they were not considered buildings. So you're looking at major refineries soiling our environment and our waterfronts and getting away with taxation murder.

COUNCIL PRESIDENT VERNA: Are you saying the refineries do not pay --

MR. TAYOUN: They do not pay on anything on that land; it's considered vacant land. That's why you see those beat-up structures --

COUNCIL PRESIDENT VERNA: But don't they pay taxes on the land?

MR. TAYOUN: Very little. If you look at the assessments of those properties, you will be depressed at how little money is coming from how much they're making from us. That's why at that time, we even tried to get a book, if you remember, in our school crisis for money pumped into those tanks, so many dollars for so many gallons, so we could fund the School District at the time.

But not to confuse the issue and delineate from the importance of the land-value tax as a concept. You will actually be reducing in nine of the ten districts, based on the information we did back then -- and this city hasn't changed that much since, except for Center City values -- property taxes for the residents for those nine districts. The other district, I think, was the district now held by Darrell Clarke which then was John Street's district, and for some reason, some of the homes up there would show a slight increase in property taxes because they had huge pieces of property besides them.

In short, if you think of a McDonald's, it's paying for its building, it's not paying for the land around it. Look at the parking garages or the parking lots -- they're not paying much for that land at all, and way in proportion to the revenue they're getting, they're not paying anything. It's like stealing money. Look at the huge truck terminals where you've got open space. Anyplace where there's open space and it's being used to make money for people, we're not fairly receiving a tax return for that property.

Citizens of Philadelphia invest in this city and everybody should be paying a fair toll. And people who are now trying not to get permits for instance, to fix their properties up, they do them in a fashion where they hope to elude the eyes of the inspectors and they renovate homes, they don't want those permits because those permits mean an increase in assessments, and an increase in assessments means an increase in taxes.

The land value takes that onus away and puts more of a burden on the land on which the property stands instead of the property itself.

So I'm urging my colleagues once again to seriously look at this. The Controller's Office has taken the ball and rolled with it, and they've done it in a very professional fashion, and everything they have to say for it, I think, should be honored and listened to, because this is the way to go.

And as far as the other taxes, what little I've heard, I remember a story from Brooks Provisions, Bobby DiMento, Sr., who told me, Jimmy, I stay in this city because I love it, and one day, I'm going to have to move my big operation. And he actually supplies almost one-third of the food vendors in the eastern seaboard with the merchandise he gets.

For instance, he gave me an example. I would buy 30 tons of baloney and then I would find that I'd have to sell it for a penny under my competitors in other states because of the tax structure here, because there was a flood on the market and I'm stuck. I sell all of that tonnage of baloney and, guess what, I have to pay the City of Philadelphia a hell of a lot of money in taxes on that commodity on which I lost a lot of money, and that's the gross business tax, but you have to look at that. Tax that's an onerous tax, that's really a serious tax that has to be discussed at length and has to be reduced 'cause quite a few vendors, major vendors, who are in this town working, distributing foods, and commodities to other areas of the Commonwealth and to other areas of the eastern seaboard, it's easier for them to relocate outside of the City and make hundreds of thousands of dollars a year more than if they stayed here because of that one tax.

That's all I have to say and I want to thank you for allowing me to be here.

COUNCIL PRESIDENT VERNA: Can you share with us what your feeling is about the wage tax.

MR. TAYOUN: I find that the wage tax isn't what chases people out of the City much. If so, the station I work for, WYSP, would not have relocated into the City, 'cause all of its employees, once they crossed City Line, had to pay a wage tax. It didn't keep them away.

If we have to cut taxes, I'm looking at gross business tax and I'm looking at a change in the way we assess our properties. That's two avenues. If the City wage tax, if you need to keep it stagnant for a while and not reduce it, that's fine, you've done a commendable job done over these past eight years, ten years in reducing that tax, and you ought to be commended for it, but let's address the other taxes as well.

COUNCIL PRESIDENT VERNA: Thank you, Mr. Tayoun.

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

MR. VINCENT: I think so. Thank you.

COUNCIL PRESIDENT VERNA: Okay. Please identify yourself for the record and proceed with your testimony.

MR. VINCENT: My name is Joshua Vincent, and I'm the Executive Director of the Center for the Study of Economics, a 501(c)(3) nonprofit foundation. We're based on Chestnut Street in Philadelphia, and I live at 3428 Vaux Street in Philadelphia.

I've been the director of the Center, which, along with our other foundation, the Henry George Foundation, was founded in 1926 in Pittsburgh, Pennsylvania, by the City assessor and several present and future City Councilmen in the city of Pittsburgh. Pittsburgh, Pennsylvania, started using what we're talking about today, the land-value tax, in 1913, and those city officials were so impressed by the results at that time that they wanted to put together a foundation that would study how it would impact other cities, and that's what we do to this day.

Essentially what we're talking about is a program to shift the tax burden from buildings onto land, in conjunction with Controller Saidel's other tax proposals, to reduce wage taxes and business taxes. We work with the cities that do use the land-value tax all across the Commonwealth and overseas, and the message that we get and the message that we're giving to you today in the city is that your colleagues all across the State think that land-value taxation works. They think that it should be implemented wherever possible, and they think that it's easy to implement and that it's a fairly non-painful process to implement.

Everybody today has agreed that we have to reduce wage taxes, that we have to reduce business taxes. But at the same time, we really have to address the fact that there are needs for revenue; we have to have certain amounts of revenue in the City, so where should we get that revenue if we're not going to get it from wages and we're not going to get it from business taxes?

Land, we believe, is the only responsible

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answer. Unlike jobs, houses, businesses, and whole neighborhoods, land cannot flee the City. To our knowledge, no one is loading up trucks with land and hightailing it out to New Jersey or to the suburbs. Land is the only species of property, if you will, that can be taxed and you won't diminish the supply of it.

In Philadelphia today, about 23 percent of your property tax revenue comes from land. Well, so what? Well, what it means is that about 78 percent of City property tax revenue comes from what we desperately need, good solid buildings. And if we can find a way to untax buildings, we should take that avenue.

Now, we have for example, tax abasements, which are exemptions on improvements. We have the ten-year abatement on improvements, that's a great idea, and everybody agrees it's a good idea. If it's such a good idea, why can't we then make it a permanent universal tax abatement on buildings, one that will not stop after ten years, one that will continually reward people to keep their buildings up to code and up to snuff and up to standard.

Now, some people have built a lot of new, you know, construction and have renovated their houses, but they haven't applied for the abatements. This would be -- by using a land-value tax, this would be an across-the-board reward for people that have done their part on their own dime and their own time to make the community a better place to live.

Most homeowners don't take advantage of abatements and programs; they just do it on their own. There's a lot of anecdotal evidence that they fix up their homes on own at 2 a.m. so that no one will catch them from the Assessor's Office.

If we make the system one that encourages development and redevelopment, I think you'll get a lot more development. We have people that are going to be testifying later in the other Pennsylvania cities that are going to attest to that.

Now, one thing that any city has to consider if you're going to bring in land-value taxation, which we know works in theory economically, is how will people be affected. Well, it's pretty clear that most neighborhoods, most blocks are going to see significant tax reductions for owner-occupiers, people that own their own homes. There was a question from Councilman Cohen's office about what would happen in a certain neighborhood in North Philadelphia if you implemented a land tax; they were concerned that there were a lot of tax increases for the various parcels.

Yes, but those tax increases would have been on absentee land owners, people that own vacant lots, people that don't even live in the City. When you consider those properties, properties where they do not live on the parcel, a land-value tax would increase their tax liability. However, when owner-occupiers are considered, there would be about a 6 percent decrease in tax liability, and that's in the one neighborhood where the land tax would seem to be not an appropriate application.

In all the other neighborhoods, especially South Philadelphia, Kensington, Port Richmond, places that are holding on by the skin of their teeth, quite frankly, you see the vast majority -- in some cases, over 90 percent of the homeowners -- will see at least some tax reduction.

I think that as we go along through the process and as the community gets more and more educated about the idea of land taxation, it won't seem as scary as it seemed to some of the earlier speakers today because, frankly, it's not been tried in Philadelphia, but the communities that have tried it are very happy with it.

Since Philadelphia is a world-class city, we can talk about a few other world-class cities that do use land values. They don't tax buildings at all or wages or businesses -- cities like Sidney, Australia; Nairobi, Kenya, Copenhagen in Denmark, and the list goes on and on.

I think the Center can recommended land-value taxation in the City of Philadelphia, whereas we have not been able to recommend it necessarily in all of the cities that have asked for our services to see if it would make sense.

And I did want to address something a while ago that Councilman Clarke brought up about green concerns and especially in neighborhoods that are perceived to be a risk. Washington D.C. is considering land-value taxation along the same time, and the most at-risk, you could say, neighborhood in the City of Washington is Southeast D.C., and we have from that neighborhood and from that area the Watershed Society, Clean Water Action, the Friends of the Earth, the Environmental Defense Fund, the Institute for Local Self-Reliance, the Sierra Club, and I could go on and on. In that particular sector of Washington D.C., they believe that land-value tax could only be beneficial.

And I thank you very much for the time.

COUNCIL PRESIDENT VERNA: Thank you.

Mr. Vincent, you indicated that the land-value tax originated in Pittsburgh?

MR. VINCENT: Yes, ma'am.

COUNCIL PRESIDENT VERNA: Are they still using that form of taxation?

MR. VINCENT: They are not.

COUNCIL PRESIDENT VERNA: Why not?

MR. VINCENT: They are not using it because they had a reassessment last year where they reassessed every property in Allegheny County, and that was done through a court order. What they did through this reassessment was get closer, probably, to the true values that had existed.

They hadn't been assessed in about 30 years, and, you know, it was particularly an egregious situation.

And there was also at the time a mayoral primary, and that kind of confluence of bad luck led the opponent of the incumbent to say that a new reassessment made the land-value tax unfair, and it was perceived to be particularly unfair to the -- well, the equivalent of Chestnut Hill in Pittsburgh is called Shady Side and Squirrel Hill. So during the --

COUNCIL PRESIDENT VERNA: How long was the land-value tax in effect in Pittsburgh?

MR. VINCENT: From 1911 till the year 2001.

COUNCIL PRESIDENT VERNA: When they did the reassessment, I guess their property taxes skyrocketed?

MR. VINCENT: In those neighborhoods, yes. Now, interestingly enough, in the center city, which is their Golden Triangle, and in the very poorest neighborhoods, which are, one, absentees, you know, big business and, two, poor people, they didn't really get heard. When they lost the land tax, the biggest tax increases were in the very poorest neighborhoods in the Golden Triangle.

So right now, the land tax is in suspension, essentially. The mayor, Mayor Murphy, is really hoping to bring it back, and about half of Council would like to bring it back, and the City Controller's Office in Pittsburgh is trying to find a way to bring it back after they get the reassessment sorted out.

COUNCIL PRESIDENT VERNA: In your testimony, did I understand you to say that you certainly could not go to all cities and talk about the land-value tax? Can you tell me why?

MR. VINCENT: There are some places where the assessments are really bad, and if you did bring in a land-value tax, most homeowners would pay more.

I think that the assessments for residential properties in this city are fairly accurate. They seem to compare well with all of the other cities that we've looked at.

If we had somebody from a southwestern city come and ask, would a land-value tax work? Well, economically, yes, it would work, but politically-speaking, it wouldn't work because there's so much low-density development in a Phoenix or something like that, that politically, I couldn't advise it; it would be a loser essentially. But essentially, that's when we say you should maybe wait.

COUNCIL PRESIDENT VERNA: Thank you.

The Chair recognizes Councilwoman Brown.

COUNCILWOMAN REYNOLDS BROWN: Thank you, Madam President.

Good afternoon. In your view, whom would be the losers? Should the City move to implement a land-value tax?

MR. VINCENT: Well, I think that if you, first of all, encourage people to can come back to Philadelphia and you down-tax jobs and businesses, even if you do have a land-value tax where some property owners pay more, I think it's a win/win overall, quite frankly, because you're providing an atmosphere for people to come back. So although you might be increasing their liability on their land, you're increasing the opportunity for people to make a profit on every other human endeavor that there is. But if you look at it just sight unseen

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and you go right into it, people that own vacant land in Center City are going to be the people that pay the most, quite frankly.

COUNCILWOMAN REYNOLDS BROWN: And what do you say to owners of large parcels of land, like Sunoco land and some of our parking lot entrepreneurs who, indeed, employ hundreds of people if that was to be implemented?

MR. VINCENT: I would say if you owned a parking lot, you don't employ a lot of people, first of all, but you could make money by building a parking garage because you won't have a tax on the buildings. Now, a parking garage can employ hundreds in its construction and can permanently at least dozens in its daily operation.

Now, a flat-top parking lot requires one wooden shack and one guy sitting in that wooden shack, taking people's money. I think, quite frankly, a flat-top parking lot would even see its profits increase if you're encouraging people to come back to Center City or downtown and open businesses.

COUNCILWOMAN REYNOLDS BROWN: And what about the Sunocos of the world?

MR. VINCENT: Well, if you mean gas stations or tank farms, it's been knocked around a little bit, and in my personal opinion, and that's for what it's worth, a tank farm isn't going to go anywhere anymore. They can't really go to another area and open up shop, nobody will have them. If you're talking about tank farms along the Schuylkill, they have lots and lots of open land, and as Councilman Tayoun said, they're not really taxed much at all simply because the tanks themselves aren't really taxed.

So I think that if --

COUNCIL PRESIDENT VERNA: Mr. Vincent, I have to disagree with you.

MR. VINCENT: Okay.

COUNCIL PRESIDENT VERNA: I think the Councilwoman's probably referring to the refineries that we have.

COUNCILWOMAN REYNOLDS-BROWN: I am specifically.

COUNCIL PRESIDENT VERNA: That I am sure employs hundreds and hundreds of people.

MR. VINCENT: Oh, sure.

COUNCIL PRESIDENT VERNA: Are you saying

that it really doesn't matter because they can't go anywhere else, that we should be able to tax them as much as we want, and they're going to just have to stay there whether they like it or not?

MR. VINCENT: That was just my opinion if you're looking at just a land tax, but we're also talking about reduction of business taxes and wage taxes, and that will be nothing but of benefit to these companies.

COUNCIL PRESIDENT VERNA: I didn't mean to interrupt you, but I just -- I know the refineries in my district and I know that they employ hundreds and hundreds of employees.

COUNCILWOMAN REYNOLDS BROWN: Many of whom are from the City.

COUNCIL PRESIDENT VERNA: Exactly.

I'm sorry, I didn't mean to interrupt you, but I just had to address that.

COUNCILWOMAN REYNOLDS BROWN: I appreciate that 'cause that is specifically what I was referring to.

My final question is, as you have described it, you see implementing the land-value tax in concert with or in connection with or along with the execution of a number of other taxes. The reality, however, is, I have yet to see a major municipality execute comprehensive tax reform of any kind. So acknowledging oftentimes that tax reform is very, very incremental and a very conservative process, what is your opinion to the one I heard you express here today that if we, as a city, are going do look at tax reform, we need to start with the wage tax?

MR. VINCENT: I think that the wage tax is anecdotally and factually a very important factor in the perception of Philadelphia as a place not to come to, not to do business in. The property tax in Philadelphia doesn't really raise that much money compared to the wage tax.

I think you could implement a land-value tax on its own, and it would be beneficial certainly, but it wouldn't have the impact that wage-tax reduction would do -- would have.

COUNCILWOMAN REYNOLDS BROWN: So then, would you agree with the notion that the wage tax is the best first start?

MR. VINCENT: I think that reduction of -- yes, taxation of labor and capital is a start that this city has to make, and I think that the land is a perfect repository for that revenue need.

COUNCILWOMAN REYNOLDS BROWN: Okay, thank you very, very much.

Thank you, Madam President.

COUNCIL PRESIDENT VERNA: You're welcome.

Mr. Vincent, what other cities started with the land-value tax and no longer have it, such as Pittsburgh?

MR. VINCENT: Well, Pittsburgh is the brand-new example because of the problems I delineated. In the Commonwealth, Hazelton and Uniontown both had land-value taxation and they both abandoned it after one year.

COUNCIL PRESIDENT VERNA: Can you tell us why?

MR. VINCENT: Yeah, actually. What they did was, they dropped the building tax rate very dramatically in the first year out, and they did it against -- actually against our advice in Uniontown in 1992. The reason they did that was because they were looking at only the carrot part of what the land-value does, they were thrilled at the tax reduction for the homeowners; but at the same time, because -- in the other Pennsylvania cities, the property tax means a whole lot more than it does here, and so it meant a whole lot more fiscally to the downtown property-owners who were afraid that their flat-top parking lots would get an onerous tax burden. And the squeaky wheel gets the grease, and so essentially, they were suspended after a year.

COUNCIL PRESIDENT VERNA: Thank you.

Are there any other questions of Mr. Vincent?

(No further questions.)

COUNCIL PRESIDENT VERNA: We will now hear from other members of the panel.

(No immediate response from panelists.)

COUNCIL PRESIDENT VERNA: I never knew Mr. Schwartz to be shy, to sit back and --

MR. SCHWARTZ: I'm happy to go, fine.

COUNCIL PRESIDENT VERNA: It's your choice, whoever wants to go next.

MR. SCHWARTZ: Fair enough. I'm Ed Schwartz, I'm here from the Institute for the Study of Civic Values. I would also add that I have spent about an alarmingly large number of years looking at these questions, including three in the 1970s, before I became a councilman, and I've spent full time in a group called "The TEA Party," Tax Equity for America, where we really absorbed all of these questions.

And I'm not here to critique Jonathan Saidel's entire report. I've read a summary of it but not the entire report. I also believe that any meaningful analysis of public budgets has to do what this Council does every year and the Mayor, and that is to examine both taxes and spending as they relate to public goals; for example, job development and the quality of residential life.

And, frankly, apart from what the Mayor and this Council has to do every year, where you face up to this obligation, because that's what's you're paid to do, the debate over tax reform, including much of the testimony that I've heard today, has absolutely nothing to do with that process.

For example, outside of today, former Mayor Rendell boasts that the wage-tax reductions that he initiated have "saved the taxpayers," in his language, roughly 100 to $150 million annually. Well, another formulation would be that these reductions have cost the public treasury 100 to $150 million annually.

If we took 100 to $150 million and invested it in improved safety and commercial and industrial corridors, adult literacy and job training, and improved access of City revenues to suburban jobs, wouldn't we have achieved even greater economic gains over the past five years than the ones you've heard about today? Who knows? That question has never been asked in that form. And this hearing has replicated that entire absence.

I would point out, however, that every single year that PICA has published one of these reports, there is almost a boilerplate paragraph that somebody needs to take a real hard look at what economic gains we're gaining from the wage-tax reduction program. It's not done. And there's much more I might say to what was here, but as you know, there's much more general that I might say on almost every subject, but I didn't come here to do that.

I think Jonathan Saidel anticipates this problem in relation to his report by saying that while he favors the entire complexion of the proposals, that each of them, you know, is a proposal in its own right. And since the land tax is kind of new and controversial, if not in the debate, and I have reason to at least think we ought to take a careful look at it, I came here to do that.

I would add one only tiny, little point which I found interesting that Councilman Tayoun and I have talked about this stuff for as much as anything else for a long time, but the one tax proposal that I do favor is the Mayor's proposal to lower the gross-receipts tax.

COUNCIL PRESIDENT VERNA: I'm sorry?

MR. SCHWARTZ: To lower the business gross-receipts tax. At a time when you're trying to attract small businesses that are often capitalized by debt, go many years without profits in order to be able to get into the marketplace, attacking gross receipts is precisely eliminating the major kinds of business that, in fact, engine the future of our economy. So I think that that makes some sense. Regardless, here too, any proposal has to examine what you're going to gain and lose revenue-wise, but I think that that makes a lot of sense.

And I also think that the land tax in Philadelphia is an option that we really need to look at very carefully in this city, given the condition of this city. Under a land tax, as I understand it, we replace our current real-estate tax system, which taxes both land and the improvements that residents and businesses add to it, with a system that simply taxes the unimproved value of the land; that is, the value of the land under normal sales conditions, assuming that no structural improvements have been made.

It seems obvious to me that such a system would provide an enormous incentive to development. The greater the value of the improvements on land become, the less the percentage of the tax on individual land and property owner.

If I own unimproved land which could be sold for $10,000, a 5 percent tax would be $500. If I make improvement to the land that raises its total value to $50,000, the $500 becomes a

1 percent tax on the property that I now own. So development reduces my tax rate. And, therefore, that's a tremendous incentive to develop vacant land. It becomes a powerful disincentive, deterrent to outright speculation, which has been a serious problem in huge areas of Philadelphia over the years.

So for these reasons, I think it's worth looking at, and in fact, there has been a little bit of a history here. Going back to 1981, I persuaded the late Councilman John Anderson to introduce and to, in fact, see the passage of what was called "the vacancy tax," a 10 percent, or 10 cents on the dollar, tax on vacant land. We were at that time terribly concerned that all of this vacant property was developing and boarded-up, abandoned houses, all the things we're discussing today, and these folks weren't paying any taxes on it. So the idea was to add a penalty for just sitting there on this unused tax.

Well, Council passed it. The Revenue Department was quite opposed to it. Their system of collections stunk. They sent out a letter imposing this tax on all sorts of places. A firestone of criticism emerged, the tax was basically paralyzed from collection, and you ultimately rescinded by Council. But there was an effort to do that.

Then, as I say in the testimony, I didn't realized he'd be here, Councilman Tayoun, as you point out, was a champion of this.

One thing that was not generally known -- maybe some of you will recall, I was now seeing this from the executive branch side of government, but during the City's budget crisis in 1989 or '90, I forget which of the years, then-Finance Director Betsy Raveel (ph) proposed a real-estate tax increase but within the framework of a land tax that she claimed would actually reduce real-estate taxes for most Philadelphia homeowners.

COUNCILMAN ORTIZ: '89.

MR. SCHWARTZ: '89. Thank you, Councilman.

I recall I was somewhat -- I didn't know what quite to make at a technical level of the proposal for land tax. We had our arguments with Betsy, but at this level, she was, you know, unparalleled really. And I thought that she would have come out, having looked at the Philadelphia system and come out with something like this, gave a certain amount of credibility to that proposal.

Unfortunately, as often is the case, this was proposed to City Council, which did not have enough time to evaluate or look at it, and we never pursued it again, which I thought was a terrible mistake. Something of this complexity needs to be handled the way the Saidel report is handling all of these things -- as proposals, and then you move forward and try to see whether they make any sense.

Finally, as one of our panelists has already indicated, even without a land tax, the City has used real-estate tax abatements creatively for many years as a tool for economic development aimed at offsetting the negative impact of the wage tax, and we've all accepted these incentives, and they appear to have worked in many instances. A land tax carries this principle to a higher level.

But I do believe, as I've said in relation to any of these proposals, you need to look at it hard and ask some of the questions in greater depth that you've already, in a sense, asked. For example, what will be the impact of moving to a land tax on different kinds of real estate? That question has been raised in part by Councilwoman Blondell Reynolds. We know that the speculators lose and people in businesses with highly-developed properties win. How does that break down, given Philadelphia right now and in the future, into various categories of homeowners, renters, industrial and commercial properties.

With the anticipated gain in taxing vacant land, we offset by uncollectible revenues on much of this land. And what are the advantages -- the absentee ownership problem facing many of the properties alluded to in North Philadelphia, you know, kind of offsets any potential gain, and the numbers of what we could collect are irrelevant 'cause you can't find the people and you don't collect the tax. So to what extent did this get stymied?

Would it make sense to shift the balance between land and (indiscernible) improvements without moving entirely to a land tax? Are there degrees here of land and improvements which might make some sense, and what's the proper formula, and what are the advantages or disadvantages?

And what benefits would a land tax offer us in the marketing of vacant land under the Neighborhood Transformation Initiative? I do believe that NTI, with its promise now of another several thousand vacant properties being eliminated and land being made available, may be an ideal setting in which to introduce a land tax as a further incentive for people and businesses and whatever to come in and develop the land that we're currently clearing.

So I think this is an option worth considering carefully. You're not going do rush through this budget and suddenly pass it on the basis of a couple of panels and reports. This is something that would go over the course of the year, but I do believe that this is an important option to look at, particularly in the context of NTI, where we are working very hard now to figure out how to reclaim and redevelop and reuse land that had a value in the past but is right now a liability to the City and we hope to have a value in the future.

So I thank you for the opportunity to offer these comments. And as far as the larger issue, you can expect that we'll have some things to say about those as well down the road. Thank you.

COUNCIL PRESIDENT VERNA: Thank you.

Our next witness?

MS. DENWORTH: Thank you, Madam President and Councilmembers. I'm Joanne Denworth, and I'm President of 10,000 Friends of Pennsylvania, so I'm going to bring a sort of statewide perspective to this issue and not look at really the detail of the Controller's proposal, though I think it's an admirable in its detail, and that that needs to be analyzed very carefully in the way that Ed Schwartz spoke about.

10,000 Friends is an alliance of organizations and individuals from across the State committed to land-use policies and actions that will enable Pennsylvanians to strengthen its diverse urban, suburban, and rural communities, and reduce sprawl. We aggressively seek development that will support the social and economic vitality of Pennsylvania cities and towns, protect environmental quality, conserve fiscal resources, and preserve our state's exceptional rural and

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heritage resources.

10,000 Friends principles have been endorsed by over 200 organizations across the State, representing well over 310,000 Pennsylvanians. And I should say that these are very diverse in their environmental heritage, but also business, municipal planning, and a lot of organizations, and we have a number of endorsers right here in Philadelphia: The Horticultural Society, Greater Philadelphia Urban Affairs Coalition, the Reinvestment Fund, and some others.

I am here to support the proposal by the Controller's Office to institute a land tax, changing the way land is taxed in Philadelphia from the current system to a tax on land and the tax on structures and improvements would generate an equal amount of revenue, or at least to tinker with the balance and the formula so that buildings are paying less and land is paying more.

We believe that the land-value tax could be a very important tool for the revitalization of City neighborhoods that's been eloquently spoken to by other people who have testified. As the report recognized, to be effective, such a program would need to be well-administered and implemented through a fair assessment process and in conjunction with other regulatory tools such as improved tax collection and appropriate planning and zoning, which is a very important to us; for example, to preserve open space and other neighborhood land and amenities.

While we have not thoroughly analyzed the full complement of the tax and other proposals in the Controller's report, we do want to emphasize our support for the direction of a number of these recommendations:

• for a reduction of City business and wage taxes, and I agree with the reduction in gross receipts and some reduction in the wage taxes to at least make us competitive in attracting business and jobs in this region;

• for continuing to pursue Commonwealth funding of Philadelphia county and State-level courts -- I don't know if we'll ever get there, but we certainly ought to keep trying to relieve the City of a burden it should not have to bear alone;

• for reducing the expense of government where possible; and

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• for statewide reform of the school finance system to reduce reliance on the property tax. That reliance across the State, which I see everywhere, has caused great disparities among Pennsylvania's municipalities in the education that they're able to provide for their children and the services that they're able to provide to their residents and businesses.

The health and economic vitality of Pennsylvania's 56 cities and 962 burroughs -- I want to tell you, that's more urban communities than most states have municipalities -- is of grave concern to 10,000 Friends and its many partner organizations. Most of these cities and burroughs are in relative economic decline as middle- and upper-income taxpayers have headed for the suburban and exurban locations to work and live in sprawling new developments, leaving cities and burroughs to provide for infrastructure, schools, municipal services, social services, and quality-of-life amenities on constantly-shrinking tax and revenue bases.

Unlike other states where sprawl is, in part, a product of growth, Pennsylvania very little growth, just over 4 percent in 30 years population growth; yet one of the highest rates of land consumption per person in the country.

And while this exodus has lots of causes, and certainly tax policy isn't the only one, it is clear one of the major motivating factors for people leaving cities and burroughs is higher taxes combined with declining value and quality of life in neighborhoods.

One of 10,000 Friends' first acts as an alliance -- we've only been in existence as a separate corporation for three years and we've had quite an impact, we think -- was to support legislation enabling burroughs to use the land-value tax, which was passed in 1998. It had already been authorized for third-class cities and was in effect in 16 cities at that point. There are more now, right?

MR. VINCENT: (Nods head.)

MS. DENWORTH: Where it spurred reuse and reinvestment in urban properties.

From our perspective, the land-value tax is an important tool for revitalization primarily because it addresses both higher taxes and declining values. It provides an incentive to invest in urban properties and a disincentive to allow them to decline and to hold them for speculation. It appropriately taxes improved land, and I think that's very significant 'cause not only do we have land, but we have land that has valuable infrastructure, which is served by infrastructure and public investment, and it spurs and leverages private investment. It can also enable a city or borough to decrease business and property taxes, as the Controller proposes.

We support policies that will encourage urban redevelopment and revitalization for the sake of bringing back Pennsylvania's over 1,000 urban communities, but also for the purpose of reducing pressure for sprawling development in the suburbs and exurbs. Pennsylvania's cities and town can be the answer to sprawl if we make them attractive and competitive, with vital neighborhoods that hold their value.

The economic and environmental health of Philadelphia is of particular concern to us -- and to me because I live here and care about it very deeply -- because of the population and job losses it has suffered in the last several decades and the large number of vacant lots and buildings here, more than any other major city in the nation.

Philadelphia, because it is exceptionally historic, culturally rich, and a liveable city, has more potential than many cities to attract residents and businesses, as the recent success of Center City as a residential, commercial, tourist, and entertainment destination shows. The City needs to use every tool at its disposal to make its neighborhoods attractive to residents, to people who live here already, and to the people who will come.

While the land tax alone won't be enough to solve tax-competitiveness issues, it can spur development, and this is the reason we endorse it so strongly, particularly in conjunction with something like NTI, which we also strongly support and are very pleased to see that that is going to move forward. And I think, as Ed said, it can work very well -- a land tax could work very well in conjunction with NTI when we're trying to attract developers to our neighborhoods.

I would also like to point out that we

have -- 10,000 Friends has been supporting a package of urban blight bills in the legislature, which has passed the House and is in the Senate. While we think these kinds of measures are quite important, perhaps this incentive sort of program to spur redevelopment is the most effective to actually get reinvestments and revitalization of Philadelphia's neighborhoods.

So I thank you very much for the opportunity to speak to all of you today and am glad to answer any questions.

COUNCIL PRESIDENT VERNA: Thank you so much.

Mr. Tideman?

MR. TIDEMAN: My name is Nicholas Tideman, and I'm a professor of economics at Virginia Polytechnic Institute and State University. Of course, my opinions are my own; they are not the opinions of my institute.

From an economic perspective, the property tax is a combination of two very different taxes: It's a tax on land combined with a tax on improvements. The tax on land is one of the most benign taxes in terms of economic efficiency, while

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the tax on improvements is one of the most harmful.

The tax on improvements operates like an increase in the interest rate that banks charge to businesses. It increases the rate of return that investment must yield to be profitable and, thereby, squeezes out some investments. In the same way that the economy slows down when the Fed increases interest rates and accelerates when the Fed lowers interest rates, the economy of a city slows down when it increases the tax on improvements, and it accelerates when the tax is lowered.

But the effect on a city of an increase in the tax and improvements is even more severe than the effect of an increase in interest rates on a national economy because of the concentration of the effect on a single locality. When the tax on improvements rises in a single jurisdiction, people and capital move to other places. When the interest rate rises, people need to go abroad to escape its impact.

A tax on land is benign because land can't move to another jurisdiction. In fact, a tax on land may be not merely benign, but actually beneficial; this is because a tax on land reduces the profit from land speculation, thereby reducing the amount of land speculation, leading to a greater effective supply of land at lower prices. The higher taxes on land motivate people who would otherwise leave the land they hold undeveloped to either develop it themselves or someone else who is prepared to do so.

Several years ago, I had a doctoral students, Florenz Plassmann, working under my supervision on a study of the impact of two-rate property taxes in Pennsylvania. He is now an assistant professor at the State University of New York at Binghamton. Plassmann and I looked at building permits in the 15 Pennsylvania cities that at that time had used two-rate for more than one year, and we looked at about 200 similar Pennsylvania municipalities that had maintained equal rates of taxation on land and improvements.

We examined separately the number of permits and the value per permit for whole structures and for additions or alterations for residential and for commercial or industrial structures. We found that two-rate taxation made a difference in all categories except whole commercial or industrial structures.

The way we explained the absence of an effect on whole commercial or industrial structures is that most cities, whether they have two-rate taxes or not, use the LERTA program to grant tax abatements to those who build whole commercial or industrial structures. Such tax abatements are economically equivalent to two-rate taxation, except that they apply only to a fraction of the potential sources of development for a city.

When we combined the effects of two-rate taxes on all categories of property, we found that for each 1 percentage-point difference in the effective tax rates on land and improvements, construction each year was greater by an average of 15 percent. Our 90 percent confidence interval on this estimate was 8 percent to 23 percent. This is the kind of impact that Philadelphia can expect if it shifts some of its property taxes from improvements to land.

Mr. Saidel is proposing a number of other reforms for Philadelphia. While I don't have numerical predictions to make about their consequences, I can say that economic theory supports the expectation that they, too, will bring major benefits to the Philadelphia economy.

Thank you.

COUNCILWOMAN BLACKWELL: Thank you.

Are there any other questions?

(No questions.)

MR. MCPHERSON: The next panel: Napolean Saunders, Benjamin Howells, William Heydt, Alanna Hartzok.

(Witnesses come forward.)

MS. HARTZOK: Thank you, Madam President staff. I'm very happy to be here with you. My name is Alanna Hartzok, and I am State Coordinator of the Pennsylvania Fair Tax Coalition. We work in support of tax shifting throughout our state, meaning tax reform that lowers the tax on workers and labor-produced wealth such as homes and other buildings, while increasing taxes on the value of land sites in order to collect for the public benefit the value created by society as a whole

I am here today to tell you briefly about the role this tax reform has played in our capital city of Harrisburg and also to describe how this policy promotes the maintenance and construction of quality affordable housing.

The business administrator of Harrisburg Nate Saunders, sends his regrets that he was not able to be with us today, but he does intend to be a speaker at an upcoming seminar on February 20th, and is available by phone to talk with any Philadelphia City Councilmember who would like to speak with him directly.

In the early 1980s, Harrisburg was considered the second-most distressed city in the United States under the federal distressed criteria. Harrisburg was a depressed city with more than 4,200 vacant, boarded-up buildings. High unemployment, and high crime and fire rates. Harrisburg gradually began shifting its property tax off buildings and onto land according to its assessed value.

Year by year, as the city gradually restructured its property tax along these lines, the city improved noticeably, according to a number of criteria. In this city of 53,000 within a 12-year period, after implementing the tax shift, there were 4,700 more city residents employed, and

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41 percent of all city households had incomes over $25,000, compared to only 16 percent previously. Over 12,500 building permits were issued, representing over $1.25 billion in new investment, and the city set two consecutive records for the most building permits issued in any year. The part 1 felony crime rate dropped 22.5 percent, the fire rate dropped 50 percent.

During this time, the City of Harrisburg began to win a number of awards such as the All-American City Award, the Highest National Community Award due to its creation of non-tax revenues and local government reform. It was also awarded top national and state honors for conservation and environmental protection success, was selected as one of eight profiled cities in the U.S. where urban renaissance has been successfully conducted. Harrisburg annually attains top national fiscal awards, one of only four of Pennsylvania's 2,640 municipalities to do so.

Harrisburg's reform of its property tax, which lowered taxes on buildings and raised them on land values, is credited by Mayor Steven Reed and other city administrators as a key policy in promoting the revitalization of their city. Mayor Reed says, "The City of Harrisburg continues in the view that a land-value taxation system, which places a much higher tax rate on land than on improvements, is an important incentive for the highest and best use of land in already-developed communities such as cities.

"With over 90 percent of the property owners in the City of Harrisburg, the two-tiered tax system actually saves money over what would otherwise be a single-tax system. We, therefore, continue to regard the two-tiered tax-rate system as an important ingredient in our overall economic-development activities."

Mayor Reed goes on to point out that in a 12-year period, more than $1.2 billion in new investment occurred in Harrisburg, reversing nearly three decades of very serious decline, and that the two-rate system has been, and continues to be, one of the key local policies that has been factored into this initial economic success here.

Note that these improvements have come about, even though 41 percent of the land of Harrisburg cannot be taxed by the city because it is state or nonprofit real estate, and even though the school property tax remains on a flat-rate system.

In the next city budget, Harrisburg will increase the tax shift ratio to taxing land values six times more than building values. City Business Administrator Nate Saunders told me over the phone yesterday that the number of vacant structures -- over 4,200 in 1982 -- is now less than 300. As the number of vacant properties slows down, the city demolishes those properties that it owns and sells them at market rates, as there's now sufficient low- and moderate-priced housing, says Mr. Saunders.

I am sure that many of you here today have been puzzled, as I have been, over how it is that the market economy does not function well in terms of supplying quality affordable housing for low- and even middle-income people. The land-value tax harnesses market forces in order to correct this problem. The experience of this policy in cities of Pennsylvania which are implementing it has shown that it does stimulate the local economy to promote employment and the construction of affordable

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housing."

If Philadelphia does not move towards this form of tax restructuring, most likely it will face an increase in social problems such as homelessness and unemployment. The 2003 Bush federal budget calls for multi-million dollars of decreases in funds for public housing, decreases in capital funds for public housing repairs, and multi-million eliminating from community development block grants. But with this solid and proven tax-reform policy in place, we can project that the positive effect of this policy will be amplified in Philadelphia.

Under the proposed plan of the office of the City Controller, the tax shift would include the full property tax base and would shift taxes not only off of homes and other buildings but also off of wages. With enhanced purchasing capacity for its residents and an increase in building renovation and construction, Philadelphia would have a chance to become the first-class world city that the Cradle of Democracy could, and should, be.

And in ending, I want to draw your attention to this very nice piece of literature put

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out by the City of Harrisburg by the Mayor's Office, who, within an article inside of this as well as on the back cover page, it uses the tax shift, lowering property tax millage on improvements and on land as a way to promote the City of Harrisburg.

Thank you for your attention.

COUNCILWOMAN BLACKWELL: Thank you.

MR. HOWELLS: Tough action act to follow.

Good afternoon. My name is Ben Howells, and I'm here from Allentown, where I served five four-year terms on City Council, many of them as president.

With the exception of the first year, I was an advocate of using split millage as the proper way to levy property tax. There are so many valid reasons to structure yours and our tax in this manner that I won't try to enumerate them.

There should be healthy skepticism over something as new and yet as old as this. Let me disavow you of some of the problems you think you might encounter and then maybe expose you to some that you may not have realized prior to this.

First, the State of Pennsylvania has

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mandated for nearly a century that the two components of an ad-valorum levy shall be assessed separately for purposes of applying the tax rate. Explicit in this is the enablement of separate rates to these two components -- land and improvements. Nothing new is required here, merely the determination of each rate by the legislative body of each community.

Secondly, the defence of such a move is well-established both by practice in the State and in sound economic theory wherever taxes are levied. One recoups from the user or property owner within a community that which the community provides. The value a community adds to a parcel is the infrastructure in place to serve that site, whether there is an improvement there or not. The owner of that site that improves that property is presently, without split millage, expected to pay taxes on -- if the ratio is here the same as it is now in Allentown, that's $80 of every $100 of the improved value of that parcel. Very little of the parcel outside of the land itself receives direct benefit from the community and its infrastructure, so why penalize the owner for improving the property when that is exactly what we encourage and hope will happen.

Downside? None really. Those that understand the measure react to it mostly based on its impact on them. Residential units that have a higher fraction of their value in the improvements would generally see a reduction of taxes, where commercial, with parking, will probably see an increase. Highly developed center city parcels that rely on off-site parking will, like residential sites, probably see a reduction, appropriately.

Look at extremes to decide if this will make a favorable difference. If all property taxes were derived from land, there would be no disincentive to developing the parcel except for the cost of the construction itself. If all taxes came from the improvements, there would be a disincentive to improve. Which is more desirable? You at City Council are empowered to decide.

A final caution: The fairness of this measure is tied directly to the fairness of the assessment upon which the rate is levied. If the appraised market value determinations are uniform, there will be the same acceptance overall of any tax levied on that property, and assessments, especially in the State have been influenced to reduce the taxes on everything residential units, the largest beneficiary of the measure, both in terms of the number of units and the aggregate resulting savings, and that's called win/win.

And I have a couple of anecdotal additions to the text I supplied. The opposition to this has been, and will, continue to play Chicken Little. If you need some strengthening to pass the measures, the 80 percent residential taxpayers that benefit from it will reward you.

In Allentown, the largest objector to the inauguration of the land-value tax was what we call fair grounds, and they rely on open space for a one-week Greater Allentown Fair. They declared that they would probably have to go out of business as a result of the enactment of land-value tax. Every year since land-value tax has been in place, their profits have grown. So it does not have the negative impact on business that the Chicken Littles would have you believe.

The assessments in Pennsylvania have

shifted the ad-valorum burden off nonresidential -- in all cases, nonresidential uses onto, in all cases, residential units in Allentown by a factor of 45 to 50. In other words, 30 years ago, if they were even -- the residential component now pays 45 to 50 times as much in taxes as the nonresidential portion. So who will benefit and who will lose? It's pretty obvious.

Thank you.

COUNCILWOMAN BLACKWELL: Thank you very much.

Councilman Cohen, do you have a question?

COUNCILMAN COHEN: Yes. Allentown is pretty close to Philadelphia, so your experiences would seem to have a much greater relevancy to us.

MR. HOWELLS: All right.

COUNCILMAN COHEN: What do you think the ultimate impact has been with respect, say, to the economic health of the city?

MR. HOWELLS: First, it was an uphill fight to get it in. As a matter of fact, in my 20 years, I didn't get it in. The year after I left, it came in, and I'd like to believe that 20 years of button-holing and lobbying and arm-twisting had

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some effect on the final outcome. The prediction was, the minute it was legally possible to get rid of it, it would be gotten rid of.

Several proponents -- when that due date came over the horizon, several proponents of land-value tax called me and said, Can we come into Allentown and help fight those who want to eliminate land-value tax? I said, you know what, no one wants to, and that's a fact. It is the most non-issue issue Allentown has ever seen. It pales by comparison to fluoridation in the water supply.

So it really has become an absolute non-issue meaning, I presume, that most people who would attend City Council meetings and complain have no complaints.

COUNCILMAN COHEN: Why is it that -- I believe most of the people who were here today seemed to represent business interests.

MR. HOWELLS: Yes.

COUNCILMAN COHEN: Why are they as supportive as they are?

MR. HOWELLS: Well, I know Mr. Saidel presented a package which is considered by most people to be a carrot on a stick, and I prefer to see it as a carrot and a carrot. The land-value tax standing by itself is a positive measure; the reduction in business tax is onerous business taxes and personal income taxes is a carrot.

So I suspect that the businessmen here saw their part of the plan as great. And people -- other testifiers here have seen the residential portion, the land-value tax portion as great.

So you've got two advocates where you only had one if you were talking about land-value tax by itself.

MS. HARTZOK: May I address that as well, Councilmember Cohen?

COUNCILMAN COHEN: Yes.

MS. HARTZOK: As we've proceeded over the years with a tax shift in the cities of Pennsylvania, it has been primarily almost a one-on-one process of one or two advocates for the shift with the expertise going and presenting to City Councils with a couple City Councilmembers advocating it and then the shift is made. Overall, it has not been a movement that has broadly educated the constituencies of these cities and that needs to be corrected.

In the City of Philadelphia, we feel that we are really at beginning stages to expand our education about the effects of this policy approach. You know, it's very much out of the usual right-left box, and in my experience and that of many of us in this tax-shift movement, we have found that once it's understood by people coming from the social-justice and economic-justice perspective as well as especially local-based businesses, there's real solidarity, if you will, that this is a good overall policy that is fair and equitable for all of the citizens of the City.

Sometimes we find that if we come in more strongly on one side, if it's on the right, then the left is kind of puzzled about it. Maybe it's the divide we have to show that we can move beyond this divide. And I think some values of this tax shift, especially first and foremost, is looking at how we can have a market economy that's a fair market economy, that addresses these basic-needs problems -- affordable housing, for instance, is so crucial -- and really solves this growing gap between the rich and the poor, which is creating such havoc with us politically and socially.

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So those who dig pretty deeply with us and look at that wealth-distribution problem come to understand and appreciate how this also addresses the issues of equity.

Thank you.

COUNCILMAN COHEN: Well, Philadelphia is a vast city, geographically-speaking; it's a vast city in many other ways, too. But there are parts of City that there's been very little private investment in many, many years. We have many thousands of vacant lots, something between 30,000 and 40,000.

MR. HOWELLS: Mm-hmm.

COUNCILMAN COHEN: It appears to many of us that certain spots of the City would go many years -- perhaps maybe never -- without being developed.

How do you reply to questions that that might raise?

MR. HOWELLS: Allentown's enacted a number of other measures that helped address that problem, and frankly, I -- I drive through Philadelphia, I walk through Philadelphia, and I cry when I see buildings that are beautiful and empty. And there is an explanation for that that goes beyond land-value tax or no land-value tax, and that's either, you know, is a good set of tools in your toolbox and use 'em.

Now, I suspect that Philadelphia sees the same problems we see. Enforcement makes enemies, if you will, but to have a viable city, you've got to enforce building codes, occupancy codes, and they aren't enforced either place -- or not enough, let me put that it way.

MS. HARTZOK: Now, you mention tools in a toolkit metaphorically, but there's actually the importance of tools in our toolkits, quite literally in terms of the incentive effects of this form of property-tax restructuring, and that is, we often here that we have to bring in outside developers to develop.

That's not the only way to develop. We're looking at local-based economic development where community members themselves take that hammer, take those nails, and fix that up property because now they can do it out in the open, they're not going to be penalized for the improvements. We're going to see boarded-up buildings that either are going to get fixed up or they're going to be on the market for sale for somebody to purchase that can fix those properties up.

So it's really, I think, a different way to look at development as a much more grassroots incentive for fixing up the houses.

COUNCILMAN COHEN: Just stay where you are for a moment.

To the Chair, I remember debating some years ago the question of the policy of the Board of Revision of Taxes in the City of Philadelphia raising the assessed value of the home and, therefore, raising the tax on the home when, say, someone enlarged the home, built a kitchen, replaced an old kitchen with a new one or put in a second bathroom -- in some cases, put in a first bathroom -- and it was felt that the improvement was being penalized by an increase in taxes, when actually, the community was benefitting.

Now, that's the only thing analogous to the what you're talking about that I've seen experienced in Philadelphia.

MS. HARTZOK: Yes, absolutely.

COUNCILMAN COHEN: Is there an analogy

there or --

MS. HARTZOK: Well, as I understand you, you're absolutely right that current form, the traditional form of property taxes is absolutely upside down. We're taxing the improvements, the incentives, the labor, the work disproportionately much higher than the value of the site itself.

So this really harnesses the property tax in a correct manner, to make the property tax progressive, for one thing, based on ability to pay. This is why we see that the 80 to 85 percent of homeowners paying less is quite politically palatable. With harnessing market incentives correctly, we start seeing that there's an increase in the housing supply, and when there's an increase in housing supply with the decrease of what we're hoping to be a decrease in wage taxes in Philadelphia, and we're seeing an increased purchasing capacity and a higher housing supply, which maintains housing affordability.

So this is a way to not throw the baby out with the bath water with property taxation by eliminating property taxes, but actually restructuring a property tax itself so that it makes it work in the correct way.

COUNCILMAN COHEN: Well, one concern I've heard expressed among my colleagues is the concern that in order to bring people into Philadelphia, we've got to have more housing that is like the kind in suburbia, rather than the traditional rowhousing in Philadelphia. By that they mean having more ground either in front or in back or on the side, with the homes maybe having indoor garage space for a car, and then they express the concern that that will increase under the land value, and that will put us at a disadvantage if there was a switch to the land-value-based tax.

What is your comment?

MS. HARTZOK: Yes, I don't see it that way, I don't describe it that way. And if I thought that this would lead to gentrification and higher housing costs for poor people, I would not support this policy.

I support this policy because of 20 years of concern for housing affordability and the problem of the growing rich-poor gap through all of our cities and throughout the United States.

I see even in my small borough of

Chambersburg, Pennsylvania, they talk in terms of development, of bringing people downtown to shop, and we would say, Well, the problem is that the people who live there themselves don't have the purchasing capacity to shop, to spend, to meet their basic needs, so let us look at how we can get the people who live in our towns and in our cities to have an increased and enhanced purchasing capacity so that with the population base that we have, we have a greater capacity for turning the city around.

I don't know if it brings people in from the outside -- it may if it becomes a better place to live, but we have to look at all of these vacant sites and all of these boarded-up buildings. And the highest land values are concentrated in a very few blocks of Philadelphia. So many of the outlying neighborhoods, they're going to see a down-taxing when you untax the housing.

I don't think really that we're going to have to worry about gentrification under this form of tax policy.

MR. HOWELLS: I'd like to offer a challenge to City Council in Philadelphia: Put all

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of the ad-valorum tax on land and then stand back and get out of the way, because you will be amazed at the incentive to fix up, rehab, and build becomes. It's -- it -- you know, for a Martian, it's obvious: If you tax land and someone owns it and doesn't do anything with it, he's paying an awful penalty. He's either going to sell it or improve it. And if he owns a vacant residential unit, he's going to make it used. He's going to go into the market with that property.

COUNCILMAN COHEN: We have huge tracts of lands where it's very difficult to identify any owner. The records have one name and that party has disappeared and we can't find anybody who owns it.

MR. HOWELLS: Mm-hmm. You guys had the same guy we had. He shunted property ownership between Allentown and California. I've forgotten his name but famous on the East Coast for that process. You couldn't track him down.

One of the measures we enacted requires that an onsite manager be named by the owner or designated by the City. I'm not sure that that's ever been done, but that man, or that manager, is authorized to solve the problems of that property. In other words, if an inspector says it needs thus and so, it's done. It works.

MS. HARTZOK: I think it's essential that --

COUNCILMAN COHEN: What happened to the tax revenues of Allentown? Did they increase their roll?

MR. HOWELLS: Yes, they have. In a way, there are other things we can attribute that to. I'm not going to sit here and tell you that Allentown's turn-around fiscally is solely because of land-value tax, but it didn't hurt.

MS. HARTZOK: I would say that the city needs to move forward on eminent domain for properties that have not paid property tax within a certain time period. If it reverts back to the City, then the City can decide on the best use of that. It can, like it does in Harrisburg, it tears those properties down and then puts it back on the market, so that's an overall net benefit back to the City.

Or the City could also maintain ownership and simply lease out that property site at fair

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market value. We see other cities in the world using this approach quite effectively.

COUNCILMAN COHEN: Last question. Doesn't the land-use tax assume that the market is healthy for development and expansion?

MS. HARTZOK: Do you mean the overall market?

COUNCILMAN COHEN: The overall market in an area.

MS. HARTZOK: Well, when we looked at Harrisburg as the second most distressed city in the entire United States in 1980, and to see how rapidly -- with a gradual shift, what they did over a year or two, they started out with two times more tax on land value and took it off the building value, revenue-neutral, and then shifted, as they saw the building permits increase over the next two, three years, they would shift it wider and wider so that this coming year, the budget shows six times more tax on land values than on buildings.

As it was more successful, as they could see the success of this, they were convinced that they would keep moving forward in this direction.

And there were a couple of occasions when overall taxes of the City of Harrisburg needed to be increased, and they decided to increase the tax on the land value.

COUNCILMAN COHEN: And what was the response of the people of Harrisburg?

MS. HARTZOK: I read newspaper stories that have said things like, We don't understand what Mayor Reed is doing, how he's creating these miracles, where we're having better police services and more parks and winning all of these awards, and yet, homeowners are paying less taxes.

So what has been the effect is that we see a city that is now winning many awards and an administrator and a mayor who says this is a key policy in Harrisburg's turnaround. And we're not saying it's the only thing did right, but it provides a kind of holistic framework or context to again harness these development incentives the right way to the benefit of the people as a whole.

And I might mention that in Dauphin County, 80 percent of the low-income people live in Harrisburg, and to see that they're doing well, making good use of federal and State funds for low-income housing, that certainly for a low-income area to see that the crime rate has been low and that the city is a beautiful, quality place to live.

I'm not saying that it's just that low-income people should all be focused into one urban area. But under the current conditions. Harrisburg shows a high quality of life for its citizens, and Mayor Reed owns the City of Harrisburg, he walks on water.

COUNCILMAN COHEN: Mayor Reed?

MR. HOWELLS: Mayor Reed is a very unusual guy.

COUNCILMAN COHEN: Thank you very much.

MS. HARTZOK: Thank you.

THE CLERK: This is Panel No. 6: Mickey Rowley, Bruce Nichols, Della Clark, Michael Moore, T.A. Spina, Bob Hornick, Krista Bard, Kay McKenna, Thomas Woodward, Tom Dugan, Jacqueline Jenkins, Troy Madres, Melani Lanmond, Ken Ford, Kathy Harris, Erin Murphy, Jean Gendron...

(Witness come forward.)

COUNCIL PRESIDENT VERNA: Good afternoon. Please identify yourself for the record and proceed with your testimony.

MR. SPINA: My name is Spina. I use the initials T.A.,first name. Shall I go on?

COUNCIL PRESIDENT VERNA: Yes, sir.

MR. SPINA: I have some handouts, three-page handouts for the members of the committee. The first page is a copy of a letter I sent to the Philadelphia Inquirer, the second page is an illustration of my position, and the third page is some comments I submitted to the Select Committee on Business Taxes some ten years ago.

I'll just cite some of the important facts that I indicate in my letter. I'm in a hurry -- I have to go to the South Street to join the revelers, okay?

I agree with Mayor Street that the emphasis should be placed on a reduction of business-privilege tax, which I'll refer to as "BPT" in the future, but I don't agree that the reduction should apply to the gross-receipts portion of the tax. Since the BPT is a tax imposed under privilege, a license, if you will, of conducted business within Philadelphia, how better to measure the cost of that privilege than by the amount of the business of gross receipts conducted within Philadelphia?

I agree with City Controller Jonathan Saidel Jonathan Saidel that the emphasis should be placed on a reduction of the tax rate on the net-income portion of the BPT, primarily because it discriminates against resident businesses, which, because of the income-apportionment factors, pays as much as six times the amount of tax based on net income than the amount of tax paid by a nonresident business with the same gross receipts in Philadelphia and the same net income.

That fact certainly is no inducement for a business to move within Philadelphia, nor does it encourage a business to stay. For example, a resident business which relocates to Bala Cynwyd but continues to generate the same volume of business within Philadelphia could save up to 60 percent of the tax on net income that it paid while in Philadelphia. In addition, it would no longer be subject to the onerous business use and occupancy tax.

On the second page, I have an example of what I just stated. On the third page, I make some

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comments that I referred to the Select Committee on Business Taxes ten years ago.

One concern is the elimination of a net-profits tax. Because of the 60 percent business-privilege tax credit, the effect of the rate of the net profits tax is less than 1 percent. Elimination of the net-profits tax will reduce the number of tax returns required to be filed by a taxpayer and eliminate the administrative costs related to that tax.

It would do away with a 16 percent BPT credit and this will eliminate the necessity of taxpayers to complete and add an added schedule on their return. It would reduce the cost of payment adjustments arising from erroneous computation and/or application of the BPT credit. The administrative costs are substantial in correcting these errors taxpayers make in computing that 60 percent BPT credit.

Finally, I recommend the elimination of the allowance -- there's a net-income loss carry-forward allowance (indiscernible) in net taxable income.

The business-privilege tax requires that net income reportable shall be the net income for the calendar year proceeding the tax year. Allowance of a net operating loss carryover is inconsistent with that section of the regulations, and it's inconsistent with the concept of a privilege tax. That's why I propose to eliminate the allowable net operating-loss carry-forward.

That's all I have to say.

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

Our next witness, please identify yourself for the record and proceed with your testimony.

MR. ROWLEY: Mickey Rowley, Executive Director, Greater Philadelphia Hotel Association.

COUNCIL PRESIDENT VERNA: Thank you.

MR. ROWLEY: Council President Verna and members of City Council, good afternoon. As I have testified here before, I represent the 60 hotels, 15,000 rooms, and some 40,000 hotel-related employees delivering hospitality services in the City. We're here to testify in support of change in the City's tax structure, change that will encourage business expansion in Philadelphia.

We think City Controller Saidel's Tax

Structure Analysis Report goes a long way in prompting such change. You probably think I'm going to tell you how awful the wage tax is for employees, how onerous the gross-receipts tax is for owners and investors, and how the property tax structure, including use and occupancy tax discourages hotel business expansion.

While all of that is true, I'd rather tell you more of what you haven't heard today. You have heard from Charlie Pizzi, I trust, and Paul Levy, people of the Center City District, and they know a lot more about tax structure than I do. But I can tell you that our hotel business growth, our anemic office tenancy growth seriously impacts the hotel business.

Hotels survive on three primary sources of business. First and most visible is the conventioneer. In the past eight years, since the opening of the Convention Center, we've seen a tremendous increase in demand from the conventioneer segment. In 1999, room night demand from conventions was up 9.3 percent; in 2000, convention demand was up 24.4 percent; and last year, 2001, one of the worst convention years, demand was still up 4 percent.

A second and important demand segment is tourists. We believe the City's been pretty successful in recent years in promoting the City as a fun place to vacation and spend weekends. The numbers support that success. In 1999, the tourist demand was up 22.6 percent; in 2000, tourist demand was up 8.1 percent; and for 2001, we predicted a tourist increase of nearly 6 percent, despite it being a very bad last quarter.

But the third and very important source of demand for our hotels is what we call "commercial traffic" -- the lawyers, accountants, and support staff, business travelers who come into the City on assignment from companies they visit here. This segment represents nearly one-third of our total demand, yet has been expanding at a very slow pace.

In one recent year, 1998, in the midst of a rapid business expansion in the country, we actually saw a 1.9 percent decline in demand from commercial travelers. In 1999, commercial demand increased 7.5 percent; in 2000, it was up 13.4 percent, which isn't bad. But last year, we predict a meager 2 percent increase in deman from commercial travellers.

Our colleagues, by the way, in competitive cities tell us that their commercial demand traffic increased by up to 20 percent during similar years.

You've heard testimony about the exodus from Center City of major office tenants. You've been told that there's a direct link between office tenancy and the City's tax structure. We agree. What frustrates the hotel salespeople on the streets of Center City looking for new business is that there is no new commercial business in Center City to support a healthy and expanding commercial segment of the hotel business.

As mentioned, this is nearly one-third of our total demand. We urge you to take a close look at the Controller's analysis and do something to change the City's tax structure to encourage new business in the City. The health of the hotel industry in the City is dependent on business expansion, and indeed, the jobs we have created are dependent on your taking action now.

Thank you.

COUNCIL PRESIDENT VERNA: Thank you.

Mr. Rowley, has the weekend specials at

the hotels, called "Spend the Night," has that been very successful?

MR. ROWLEY: It's been tremendously successful, actually. We've had 15,000 room nights so far and about a million and a half in room revenue, and probably 4 million in economic impact. We have been delightedly surprised.

COUNCIL PRESIDENT VERNA: Oh, that's great. Glad to hear that. Thank you.

Our next witness?

MR. NICHOLS: I have copies of what I have to say for the Sergeant-at-Arms.

Madam President and Councilmembers, my name is Bruce Nichols, and I'm President of Museum Catering Company, and I'm here before you today as President of the Greater Philadelphia Restaurants and Purveyors Association, GPRPA.

The GPRA represents the food industry, from diners and chain restaurants to caterers and fine-dining restaurants, as well as the region's purveyors of food, beverage, and restaurant supplies. We are a part of Philadelphia's service sector that, according to the Controller's report, represents 49 percent of the revenues from the business-privilege tax, and it's the BPT that I want to focus on today.

Various members of the GPRPA met with representatives of the Controller's Office last year as they sought business input, and while many of us expressed ongoing concern about the liquor-by-the-drink tax, we turned much of our discussion to the BPT.

To us, it seemed a regressive form of double taxation that not so much discouraged new startup business; most independent restaurateurs starting out had little or no awareness that the BPT existed, as it demoralized businesses, particularly against small, independent restaurants when they realized that there was a sizeable tax that they needed to pay that they had not even heard of.

I speak from personal experience. My wife, some years back, had a great 30-seat restaurant in Center City, but let me tell you, 30 seats is not really very much. The first spring, she saw her double BPT tax bill, some well into four figures, and she was really pretty overwhelmed. She was trying to meet payroll, pay her vendors, the landlord, the laundry, and all of the other immediate necessities for a business that during the week often generated daily revenues of less than $1,000. The BPT tax really must be lowered.

As for the gross-receipts portion of the tax, we support the Controller's recommendation of moving from 2.4 mills to 2 mills in 2003. Even so, in years like 2001, when many in our industry suffered substantial losses, paying a tax called "business privilege" rings somewhat hollow. We hope that some day, the City will completely eliminate a tax businesses pay even in years that they operate at a loss.

The City must take seriously the call to improve the business climate by lowering the tax burden on small businesses. Innovative and creative restaurants and the business of hospitality are at the heart of the vibrancy people feel about Philadelphia.

The GPRPA supports the Controller's recommendation that the net income tax half of the BPT go from the current 6.5 percent to 4 percent in 2003, and that the net-profits tax be completely eliminated after 2003, so that corporations partnerships, and individuals pay the same lowered business rate.

Our restaurants and businesses are in Philadelphia because we want to be here. Please help our restaurant and hospitality environment shine by making the City more business-friendly, and make these needed changes to the BPT.

Thank you.

COUNCIL PRESIDENT VERNA: Thank you.

Good afternoon. Please identify yourself for the record.

MR. FRANK: Good afternoon. My name is Ben Frank, and I'm the Executive Director of Center City Proprietors Association; Krista Bard could not be here today.

Center City Proprietors Association is the voice of small business in this city. Within our organization boundaries -- River to River, South Street to Spring Garden -- there are at least 5,000 small-business owners, with 10 or fewer employees; that's about 50,000 people affected by small-business issues.

CCPA recently polled our members, asking

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what are the biggest obstacles to doing business in Center City? The number-one answer was taxes. So we polled our members again specifically on the tax issue. They feel that the most burdensome taxes are the business-privilege tax on gross receipts and net income and the City wage tax.

We are normally enormously grateful that Jonathan Saidel and his team are trying to tackle the problem of taxation, making some excellent recommendations. We are relieved that our mayor sees the need to reduce taxes as well. We hope it will both business privilege and City wage.

We need you to take action now. We must do something to give all businesses, especially small businesses, incentives to locate and stay in Center City. If we continue on the same track, we will continue to drive business out of the City.

Please be a part of the solution: Reduce our taxes, help small-business owners stay in business, help the City grow and thrive. Our small businesses are what give the City its unique character. We make Philadelphia a place where people want to visit, live, and work. You probably got your hair cut at one of CCPA's member's stores, had lunch at one of our member's stores, had lunch at one of our member's restaurants, are reading papers copied by one of our member's machines, and will probably buy a Valentine's gift from one of our member's stores.

We need a tax break desperately. Don't dismiss the ideas of Mr. Saidel or our mayor. Take the challenge, be community leaders, and find a way to cut taxes that make it easier for business to thrive. You can make the City such an attractive place to do business that business owners will flock to invest here. Then we would have a much healthier tax base. Please don't act from fear; act instead from the vision of a vibrant, thriving city. Please do something to help make the City more attractive to employers and employees -- start by lowering taxes.

Thank you.

COUNCIL PRESIDENT VERNA: Good afternoon. Please identify yourself for the record and proceed with your testimony.

MR. WOODWARD: Thank you. Good afternoon. My name is Tom Woodward, and I'm here on behalf of Tom Callan. Tom was unable to attend today's meeting; however, he did prepare written comments, which I will simply read.

COUNCIL PRESIDENT VERNA: Thank you.

MR. WOODWARD: My name is Tom Callan. I'm a managing director with BlackRock Financial Management.

BlackRock left Philadelphia ten months ago as a result of the high cost of Philadelphia business tax. I am here today as a concerned, longtime resident and taxpayer of the City to share a few insights on that and to fully endorse recommendations in the report outlined in the Tax Structure Analysis Report authored by the Office of the City Controller.

BlackRock is an investment organization with over $225 billion in assets under management and over 800 employees. It is headquartered in New York, with offices in Edinburg, Tokyo, Hong Kong, San Francisco, Boston, Wilmington, and until ten months ago, Philadelphia.

Philadelphia was the sole location for Blackrock's U.S. equity business. The equity business is the firm's single biggest growth opportunity. When we left Philadelphia, we

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employed about 50 in portfolio management, equity trading, and trading operations. There was the potential for this to grow to 250 people in the coming decade. Over half of those employees of those employees lived in Philadelphia and all but one employee walked or took public transit to work.

Geographically, Philadelphia was an excellent satellite location for BlackRock. The firm's mid-town New York headquarters was only 90 minutes away. The City enabled BlackRock to draw on a well-educated talent pool. We hired dozens of interns from the University of Pennsylvania and from Drexel. Furthermore, BlackRock has close ties with Penn; the chairman, vice chairman, and president of BlackRock attended the Wharton School and University notables served, and have served, on the board of the BlackRock funds.

Yet even these benefit and ties were not enough to overcome the substantial tax burden levied by Philadelphia on Blackrock's growing business. The firm derived very little revenue or profit from Philadelphia-based client relationships, yet it was obligated to pay a 6.5 percent net income tax based on the complex formula for the sole privilege of having an office in Philadelphia.

The BlackRock management committee ultimately decided that the tax costs could not be justified, and that as a public company, we should either reinvest the potential tax savings in the business or return it to the shareholders.

Last year, I personally retained the law firm of Stradley Ronan to analyze the City's tax burden on investment management companies and to compare it with that of surrounding municipalities. What I learned was absolutely consistent with the findings of the Office of the City Controller.

Based on these finding and on my personal insights into Blackrock's decision to leave the City, I would like to underscore two key points made in the Controller's report:

1. The business-privilege tax is more important to a corporation with operations in the City than the wage tax. As a testament to this, BlackRock employees formerly working in Philadelphia and now working in Delaware are paying a 5.9 percent Delaware State income tax versus the 2.8 percent Pennsylvania tax. Additionally,

Philadelphia residents continue to pay the City wage tax and incur higher commuting costs. The business-privilege tax, not the personal wage tax, was at the center, and is at the center, of every corporation's decision to leave or bypass Philadelphia.

2. The apportionment formula used for calculating the net income tax portion of the business-privilege tax is a key obstacle for businesses that derive no tangible economic benefit from being located in the City, and that is almost all businesses operating and competing in our global economy. The penalty of this apportionment formula for Philadelphia is that it will retain only small businesses serving the local community and tourism. It ensures that there will be a continued hollowing out of the Philadelphia business community.

It is not all grim, however. The Tax Structure Analysis Report is complete with well-reasoned recommendations; not all are expensive. I want to underscore that one would virtually eliminate the obstacle to retaining and attracting future growth business of the world economy.

On Page 64 of the Tax Structure Analysis Report, the Office of the City Controller recommends that we change the current multi-factor apportionment formula for determining tax liability for the net income portion of the business-privilege tax to a single factor and apportionment formula beginning in Fiscal Year 2003. The recommendation is to base the net income tax on the percentage of gross receipts generated within the City.

Under the current formula, businesses located outside of the City pay a lower tax rate on income earned in Philadelphia than City-based businesses do. Under the new formula, the effective tax rate would increase for businesses located outside of Philadelphia and decrease for City-based businesses. According to the Revenue Department, this change would represent a worst-case scenario, a first-year loss to the City budget of just $11 million. I repeat, $11 million. What a simple, powerful, and affordable idea: Reward businesses for choosing to locate in our city rather than penalizing them for it.

Nothing is are more important to the vitality of the City of Philadelphia and its ability to solve the social problems than the creation of well-paying jobs. The budget proposed by the Administration recommends cutting the gross-receipts portion of the business-privilege tax, which is levied on receipts generated within the City. This will modestly ease the tax burden for businesses serving the local community, but it will do nothing to retain or attract businesses that sell into the broader U.S. and world economy and bring outside money home to Philadelphia. The Administration's proposal will not create jobs, nor will it stem the losses. Changing the apportionment factor will.

Consider the costs to our city of a business like BlackRock leaving:

• Salaries for the BlackRock Philadelphia employees ranged from $35,000 to over 1 million.

• About one-third of the employees were among the top 1 percent of all U.S. income-earners.

• The firm attracted significant amounts of outside money to the Philadelphia local economy, including:

— Over 2,500 room nights annually at hotels in Center City all utilized by rooms consultants, clients, business partners, and companies from around the world seeking to raise capital through BlackRock;

— Literally thousands of meals at the City's best restaurants;

— And then when you consider the growth factor, multiply this time four

In closing, I will leave you a reason for optimism. The City of Philadelphia has tremendous potential as a major financial-services center among other fast-growing knowledge businesses. I am confident that corporations that have moved from the City to the greater Philadelphia area will reconsider the City if City Council changes the apportionment formula, as recommended on Page 64 of the report. I also believe Philadelphia could attract a significant portion of the financial-services jobs that have been moving out of Manhattan for a long time.

I would like to thank the Office of the City Controller for their initiative and for their thoughtful and provocative work. I would also like to thank City Council for allowing me the opportunity to testify, and I urge you to initiate legislation on the recommendations made by tje Office of the City Controller immediately all for the future of Philadelphia, U.S.A.

Thank you.

COUNCIL PRESIDENT VERNA: Thank you.

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(Procedings now stenographically recorded by Lisa C. Bradley, RPR.)

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COUNCILMAN COHEN: I assume you discussed the latest problems raised with the Revenue Department or the Finance Department of the City. I'm very much interested in what you said. I'm not too familiar with that apportionment. Were they apportioning the amount of business that they believed came out of Philadelphia.

MR. WOODWARD: Well, a company like BlackRock is really generating most of its revenue in places outside of Philadelphia. It's simply a financial services company serving clients literally around the world. Yet because it was headquartered and based in Philadelphia, the equity division, they were subject to these taxes. Yet from their perspective, because the business itself didn't really involve that many clients in Philadelphia, there was very little incentive to want to stay in Philadelphia.

COUNCILMAN COHEN: Well, say if the Philadelphia office moved back to the home office in New York, would that tax be completely eliminated?

MR. WOODWARD: Except for any deals or anything that might be done in Philadelphia, yes. And they've moved. They're gone.

COUNCILMAN COHEN: Did you speak with any Philadelphia official about what appears clearly from the way in which you characterize as a clearly unjust tax? Did you speak to anyone in the Philadelphia Finance Department or in any of its business establishments?

MR. WOODWARD: I can't answer that question only because I'm here on behalf of Tom Callan who is the author of this particular letter. And he's an employee of BlackRock. But I would be almost certain that they did speak to the city people, particularly, given the connections with Penn and anything else involved on their board.

COUNCILMAN COHEN: Would you be good enough to explain to him that I certainly, and I'm sure other members of Council would be very much interested in knowing what he did to inform City officials of what he believed was an unfairness and what their approach was.

MR. WOODWARD: Yes. I'd be more than happy to convey that.

COUNCILMAN COHEN: Because it seems clearly from the way you put it that this was the tact. I believe today this is the only complaint we had about the net income -- the net profits portion of the privilege tax.

MR. WOODWARD: I believe my colleagues here have also spoken to that.

COUNCILMAN COHEN: Well, I think it's very important. We in Council are very much interested. We're always concerned where the make-up revenue is going to come from. I think most of us would support changes, at least taking initial steps to make those changes in the clearest cases of what appear to be totally irrelevant and unjust taxes. It seem to me that the instance you explained was such a instance. So if you could speak the author of that letter, if he could put things together and address the concerns of President Anna Verna of City Council, I think there will be many of us in City Council that would like to see changes in the law.

MR. WOODWARD: Will do. Thank you.

COUNCILMAN COHEN: Because we do think that Philadelphia is ideally suited to be a financial center. Thank you.

Thank you, Madam President.

COUNCIL PRESIDENT VERNA: Thank you.

Thank you very much, sir.

Please identify for yourself for the record.

MS. MCKENNA: Thank you. I'm Kay McKenna, City Council Observer for the League of Women Voters. I'm here on behalf of the president of the Philadelphia League, Heidi Gold. I have copies of her testimony.

Our testimony is short because our position on taxes does not cover all aspects of the Philadelphia Tax Code, Business Tax Code. However, the League of Women Voters of Philadelphia very much approves of and supports the scope and intent of the Controller's Philadelphia Tax Structure and Analysis Report.

The league has advocated for the re-configuration of Philadelphia tax structure since 1970 and supports an equitable and flexible tax system for Philadelphia, including a competitive climate for both businesses and residents. Specifically, the League supports taxation of net profits rather than gross receipts. That's net profits, not net income. The league supports aggressive tax restructuring that will help reverse the trend of urban flight. The proposals contained int City Controller's report address these issues and are carefully designed to attract residents and businesses to Philadelphia.

So the League encourages City Councilmembers to consider the proposal outlined in the City Controller's tax structure report. It's a blueprint for change in the Philadelphia tax policies.

Please call Heidi Gold at the given number for any additional information. Thank you.

COUNCIL PRESIDENT VERNA: Thank you very much. You have all been so very patient and I'm very grateful. Thank you.

Our next witness.

MR. HORNICK: Good afternoon, Madam President and Council. I'm Bob Hornick. I'm chairman of the Pennsylvania Institute of Certified Public Accountants Committee on Local Legislation and taxation. I'm here today with my colleague Matt Malenson (Ph) of the same committee.

I want to thank you for this opportunity to discuss this issue with you. I have good news for you. I know you're working on probably information overload in statistics. And I promise you my testimony is probably going to have very little of that, if none.

For a number of years, my committee has recommended local tax reform. We consulted with specialists in various areas, including finance, taxes, labor, education, economics, state and local government, and elected officials.

In recent years, our City has some wonderful success stories, including the Pennsylvania Convention Center, the Kimmell Center, tourism, Center City District, and others. We're proud of these achievements, but they're too few and too small in relation to the overall City economic picture. Regardless of our City's underlying economic structure of business and jobs as failing, and we've been in a downward spiral for most of the last half century, as you probably have heard from other speakers. And it is not the portrait of the vibrant City we would like it to be.

The Controller's report confirms what

many of us have concluded for sometime now. There's a demonstrated need to make fundamental changes in the City tax structure. And many of the recommendation Controller's report are in accord with those made by our committee. And our committee specifically has advocated and supports the following recommendations: Change in the current multi-factor apportionment perimeter for determining tax liability for the net income portion of business privilege tax to a single factor apportionment perimeter, and you've just heard that. An advocate for Pennsylvania General Assembly to make a technical amendment enabling legislation for the City's business privilege tax to make it a retrospective tax instead of prospective tax. And eliminate the need for businesses to double pay their business privilege tax. And I understand that's being worked on currently.

In addition to the above recommendations, I believe we must have substantial or continue with reductions and have substantial reductions of the City wage tax and net profits tax immediately. I think we should make a dramatic statement to the world that we no longer want to be known as the high-tax anti-business location. We need all the publicity we can get to try and rid ourselves of the poor reputation we presently have in business and labor community. We have to put Philadelphia on the short list when business location is considered. Right now we have to get Philadelphia on the list for professional advisors.

In regard to budgetary issues, I would like you to consider arranging for financial modeling that takes into consideration a situation that is not static. In other words, what I'm saying is, if we change the structure it's just possible we could attract new businesses, new labor, and raise our tax base. That would be our goal. And that would mean that we could have greater revenue, which I know is vital for the City operate.

This involves, of course, financing our City future. We need to have long-term commitments and restructure our tax loss. We need to eliminate taxes in a negative factor consideration of location of business in Philadelphia.

Businesses would not flock to Philadelphia tomorrow if taxes were eliminated. It would be a good way to start the ball rolling, but at the same time we must municipal services, school, crime control, neighborhood improvement, and the community amenities is essential.

So the agenda is for the improvement, which we all agree on, improvement of the City. And the top of that agenda, in our opinion, keystone is tax reform.

Finally, I would say in closing, many of the statements I have just made were supported by the Mayor's Transition Committee a little less than two years ago. The major points in the Transition Committee recommendations, as you all may remember I'm sure. Reduce the wage tax and gross receipts burden is one. Another is the top liability in our area is considered the tax load. And finally, the third one, from Mayor John Street Transition Team Tax Policy and Sub Committee recommendation, shift tax burdens from wage tax to other taxes improve compliance. So with that, I conclude my report. Thank you.

COUNCIL PRESIDENT VERNA: Thank you very much.

MR. HORNICK: Are there any questions?

COUNCIL PRESIDENT VERNA: I don't

believe so. Thank you. Thank you for your patience.

Good afternoon. Please identify yourself for the record.

MR. MAZZUCOLA: President Verna, my name is Kevin Mazzucola. I'm the executive director of the Auto Dealers Association of Greater Philadelphia. I do have written testimony that I'd like to share with Council.

Our association represents 240 new car and truck franchise dealers throughout the greater Philadelphia area generating close to $10 billion in sale and about 15,000 employees. I'm here today to testify on behalf of our 28 dealers that are in Philadelphia.

I feel a little bit like a fly in the ointment. And there's been a lot of ointment here today. And I say that respectfully because for the vast majority of the speakers today, we support the Controller and what they're trying to do. And even though my members disagree with the City Controller's proposal for a land value tax, I want to compliment him for stimulating the discussion for a bolder approach reducing Philadelphia's taxes.

Most of his proposals would benefit my association and our industry in the City. It's hard to argue with the target set for reducing the rates on the wage tax and business taxes as ideals. If a consensus were to be developed that these kind of reductions could be achieved in the near future and then be maintained and if specifically legislative proposals were put forward to implement these reductions, I'm sure that the members of my association would express strong support.

In the mean, however, we live the world of realities, and our concerns pragmatic. While the Controller's other tax proposals represent to the City in the long run will come out ahead, a basic premise of the land value tax is that ti will be revenue neutral. Rates on land and buildings would be set in such a way as to guarantee the City the same amount of revenue it now collects.

We, therefore, look at the land tax as a stand-alone measure that could be implemented by the City independent of other tax changes and with no risk of revenue loss. We're also concerned that if the City were to implement the Controller's other proposals and then experience substantial revenue losses, it would simply raise the rates of those taxes to recover the lost revenue. But if the City were to institute a land value tax which require a massive citywide reassessment of properties, it seems unlikely that we would abandon that scheme once we were there. Automobile dealers would have to live with the system of taxing real estate is fundamentally unfair and damaging to our business.

Prior to this hearing, we were able to analyze the impact of this proposal on 20 of the 28 new car franchise dealers in our City. Our analysis found that 2 of the 20 dealers would experience relatively small tax reductions and that the other 18 would experience tax increases, and many of them very steep. And I'll give you a breakdown very briefly: Three would face increases less than 5 percent. Three would face increases between 5 and 10. Four would have increases between 10 and 20. Two, between 20 and 30. Three between 30 and 50. And three would face increases of more than 50 percent. And indeed, one dealer's taxes would go up 100 percent. The average change, when you total all of these dealers, is about 24 percent increase in their taxes.

Our analysis used the current assessment on land and improvements as determined by the Board of Revision of Taxes. We recognize that these breakdowns between land and buildings might change under a careful reassessment and that would be carried out prior to the institution of the land value tax. The final impact on the various dealers may be somewhat less harsh or it may be worse. It seams to us unlikely, though, that it would leave the car dealers better off.

The major problem with the land value tax from our point of view is that it fails to recognize that the lots on which we store our inventory are in effect our warehouses and also at times extensions our showroom floors. The lots are paved lighted, and often landscaped around the perimeters, but they don't support building. But neither are they blighted properties that detract from the property value of their neighbors and from overall property values in the City. Rather, they are integral assets of our business. And as such, they are helping sustain an industry that produces 2700 jobs and close to $1 billion in gross sales and $10 million taxes a year just for the City alone.

I want to emphasize that those data are for the Philadelphia dealers alone. Again, they do not include the economic activity generated by our suburban dealers, nor do the include the $24 million generated by the annual auto show from last month.

Operating a new car dealership in the City of Philadelphia is a challenging, proposition given the lower business taxes and more affluent customer base in the suburbs. Twenty years ago there were more than 40 new car dealers in the City. Before the 1984 business Tax Reform Act gave the City more flexibility in levying taxes, business taxes here were a crushing burden to our industry. As you know, the automobile industry is highly cyclical. Despite the high price of our products, car dealers also operate on narrow margins. The City gross receipts tax of 4 mills forced dealers to pay very high taxes even in years where they lost money.

Along with population loss, the City's business taxes were responsible for dealers leaving the City. But over the course of the last 15 years, the City Council has done a lot to make the tax burden more bearable.

Over the last decade, you rejected proposed increases in the City wage tax and in fact began steadily reducing that tax. You reduced City business taxes on retailers who operate on thin margins as car dealers do. You supported an exemption from the City's sales tax of automobiles purchased by suburban customers. While Philadelphia dealers still face higher taxes overall than dealers in the suburbs, the difference has been significantly narrowed.

Mayor streets proposal to accelerate business tax reductions in the years beyond Fiscal Year 2003 is another positive sign for our industry. Although we would also like to see, of course, the schedule wage tax reductions resume as quickly as possible.

The proposed land value tax would reverse what has been from our perspective a positive trend towards a better tax climate.

On behalf of philadelphia dealers operating at 28 locations an employing 2700 workers, we ask you to continue the good work you've been doing in recent years to reduce Philadelphia's tax burden to our industry, but have concerns and reservations regarding our industry on the institution of a land value tax. Thank.

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

Good afternoon. Please identify yourself for the record.

Good afternoon. My name is Tom Dugan.

MR. DUGAN: I was asked her by Jonathan Saidel's group.

COUNCIL PRESIDENT VERNA: I'm sorry. I didn't hear you.

MR. DUGAN: I said I was asked to come here and speak by Jonathan Saidel's group. And when they first asked me, I wasn't quite sure why. And to be honest with you, I'm still not sure why. I am not an accountant. I am not the head of a chamber. I'm not a tax attorney. I'm not an economist. I am a business owner, a simple relatively small business. And actually, I kind of did the opposite of I think what we're trying to prevent. I had a business in the suburbs and I brought it into the City. One of the one main reasons I did that is because I felt that that's where the action is and I think that's what's important to our business. But

I held off doing that until I got the opportunity to go into a Keystone Opportunity Zone. And I think that's really what's, in my mind, kind of pushed me over the edge to say, Okay, I'll bite the bullet on 4 percent taxes, or whatever that happens to be.

I think one of the interesting things is that when you talk about tax cuts and tax breaks and things like that -- forgive me if I'm making assumptions, but I think everybody in this room probably is very close to the situation. And I tend to be your typical suburban guy, even though I was raised in Philadelphia and went to grade school and high school and College in Philadelphia. If you asked me what the wage tax was, I would say, "I don't know, 4.-something or other. And my guess is that 90 percent of the people in the suburbs would tell you the same thing. So, if you talk about lowering a wage tax from -- and I don't know what it is -- 4.5 percent to 4.2 percent, in terms of dollars to the City, I think that's a lot of money. But in terms of impact, that doesn't really -- it's still 4. something or other to the people who you really want to bring back in. So I guess my point is that -- and the same would go with the business privilege tax. Whether it's 6.5 or 6.7, it's still pretty much the same thing from an outsider's perspective, from a business owner's perspective.

And I think if you need to do something, in my opinion, it's a radical thing that needs to be done. And I know that governments aren't used to doing radical things the way entrepreneurs are, because I think there's more at stake. For me as an entrepreneur, I started a business on my own and I built it up and I brought it into the City, but that was my choice. The people I affect, I had immediate control over. I had a finite number of people. You guys have 1 1/2 million people that you have to worry about. And I understand that. But I think if there's something to be done, if there's something that you're looking at doing, I kind of look at it needing to be more of an impact than just saying, Okay, we'll decrease it by, you know, five-tenths of a percent or whatever that number happens to be. It tends to be much more of an impact -- even if you lowered it from 4 point something to 2 point something Year One, that's headline news and everybody hears that and everybody knows about that. And then if you raise it up the next couple of years, that's a separate issue.

But I guess my point is that I'm not really smart enough to identify the economics of the situation. And I'm not smart enough to draw you the graphs and quote you the statistics and explain to you how the tax plan works. I read the tax plan twice because the first time I'm not sure if I understood it. But it's somewhat of a radical position that they're taking. And I think it's important to do something. I think something needs to happen. And I'm not smart enough to tell you what that something is, but I read the report and the report is something. And it's more than anything else that I've seen or read or heard even imagine.

COUNCIL PRESIDENT VERNA: Mr. Dugan, what type of business are you in?

MR. DUGAN: It's a technology services business.

COUNCIL PRESIDENT VERNA: And how many employees do you have?

MR. DUGAN: Today there are five. We were out of the City and moved in a little over a year ago.

COUNCIL PRESIDENT VERNA: Great. And you are in favor of the City Controller's plan?

MR. DUGAN: Yes. And, again, I think when -- I think it's well-written plan. It's an excellent plan, well laid out because a knucklehead like me can understand it. And I think that's important.

I think that there's a lot of information in there. And I think, actually, the best line in that whole report is on Page 2, and it's somewhere on there that the basically says the assumption of this plan is that there's a desire for change. And I forget exactly the wording of it. But if you base that assumption, if there's an assumption that you want to do something, then the plan holds true. If there is not -- if that assumption is false, then the plan is worthless. And I purposely -- of the whole report, that's the only line that I underlined because I thought that was important.

COUNCIL PRESIDENT VERNA: Thank you, Mr. Dugan.

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

Thank you again.

COUNCIL PRESIDENT VERNA: Della Clark. Michael Moore. Jacquelin Jenkins. Are any of them here?

Della Clark. Michael Moore. Jacquelin Jenkins. Troy Madres.

MR. MANDEL: Madam President. Bret Mandel from the City Controller's Office. Mr. Madres is not able to give his testimony, but I submit it in for the record.

COUNCIL PRESIDENT VERNA: Thank you.

MR. MANDEL: The Center City Residents Association also planned to testify on behalf of tax reform, but are not here. I submit that for the record.

COUNCIL PRESIDENT VERNA: Just a moment please. I'm just looking for their names.

MR. MANDEL: They're actually not on the list. They faxed it in this morning.

Geoffrey Gardner, another late addition from Preferred Real Estate Investments, Incorporated, submits testimony. As does Cynthia Kuper from Versilant Nanotechnologies. So we ask that these be added to the written.

COUNCIL PRESIDENT VERNA: None of them were on the list?
MR. MANDEL: Exactly.
COUNCIL PRESIDENT VERNA: Thank you. Please go down the list.
MR. MCPHERSON: Melani Lamond, Ken Ford.
COUNCIL PRESIDENT VERNA: Please identify yourself and proceed with your testimony.
MR. FORD: My name is Ken Ford. I'm the director of the Henry George School of Social Science here in Philadelphia, 10th and Pine in South Philadelphia.
Madam President, my remarks are simply to urge you to save the City of Philadelphia from a slow economic implosion by taking advantage of the opportunity to alter the City's form of taxation in the direction of a greater emphasis of land or location values and an extra burden on purchases and wages, a burden which Philadelphians and ex-Philadelphians have stated over and over again were factors they considered when deciding where to live or where to start a new business or when to expand their existing businesses and where to expand their existing businesses or even direct where to

live or to place their capital and their money.

Now, the great advantage in a movement towards a greater emphasis on land or location values is that the municipal officials of the City will be collecting revenues for the functions of City administration that the City's own policies helped to create. Every decision to increase police or fire services in a particular area or build a new library or improve the street lights or even to tear down old factories and buildings near an otherwise well-situated parcel of land has the effect, intended or unintended, of raising the land or location value of all nearby parcels of land in that area. Now, one could say this a story of Delaware Avenue or Manyunk or the Avenue of the Arts. Or if you wish to go back in time far enough, the story of Society Hill or Olde City or much of Center City Philadelphia. This idea also inspired the creation of the special services improvement districts. Who should recoup the benefits of improved or increased services? Individuals, to the extent that they the contributed their labor and their materials to the rebirth of area, but shouldn't the City itself collect the increased land or location values that the City's own policies were invaluable in creating? I would say the answer is unquestionable yes.

And the other great advantage of a shifting from consumption and wages to land or location value, is that when a particular area begins to improve, those who are of low income have a chance to benefit from the improvements that are taking place in that area. All too often, if a formerly poor area or neighborhood begins to improve, either through private or public efforts, the poor are long gone by the time the process of the improvement is completed. The process is known obviously gentrification. Now, wouldn't a better method of improvement be to revive an area in a way that increase location values go to a public purse for public purposes and not to private bank accounts? If there's little incentive to speculate, there's also little incentive to force out the poor in anticipation gentrification. There's also no incentive to let buildings lie idle and literally fall apart while getting tax breaks and waiting for something, usually a taxpayers subsidized project such as a convention center, or an Avenue of the

Arts or new sports facilities to increase location values.

Now, Philadelphia could do itself no greater favor than to put itself on the road to recovery by stimulating its renewal with a new method of taxation in the direction of land-value taxation. Philadelphia is on a crossroad. It has lost jobs and population for 40 to 50 years.

The two paths before us are apparent. One path is to allow the dry-rot that has taken hold in many of our neighborhoods to continue and expand further and further. Philadelphia then slowly descends into the rank of municipalities that are on permanent life support. Now, the heart beat of commercial and industry die away. Cities that are already in this lamentable and unfortunate state include Camden, Chester, East St. Louis, Garry, Newark, et cetera. Philadelphia then becomes an object of derision or pity, not a point of pride for the Delaware Valley. Fortunately, this is only one of the paths.

The other path is the one that will no doubt interest you. On this path, the outflow of Philadelphia's life blood, jobs and population, is totally ceased. The process of dry-rot has been reversed as the causes of economic blight as well as physical blight are removed from the streets of Philadelphia. In Adams Smith's so-called invisible hand of private enterprise begins to manifest itself again in earnest as the neighborhoods revive themselves and re-flex their muscles and discover their once-strong vitality. The dead hand of speaking and the under-utilization of resources in the City are phenomenon which die away. This City's municipal officials will be able to point with pride to a state of affairs in which Philadelphia is once again viewed as the engine and not the anchor of the Commonwealth and of the region.

Now, the second and far superior path is not only immediately practical but has many precedents. We must adjust Philadelphia's method of taxation to encourage what is desperately needed, capital formation, job creation and commerce, and get rid of that which forms the dead hand, absentee land ownership, real estate speculating slum-lording and other forms of un-benigned neglect that is slowly smothering Philadelphia.

As was previously mentioned, our state

capital, Harrisburg, endured a crisis in the 1980s which, relative to is its scale, would be familiar t those struggling to keep Philadelphia economically afloat. Harrisburg had been classified as one of our most distressed cities, was clearly headed towards a Camden or Chester type status. And Harrisburg was able to rescue itself by reforming its property tax so that the bulk of the tax fell on land or location value and not on buildings. Land-use was encouraged. Building, construction and improvement was encouraged. Absentee idle building and land ownership was discouraged. Harrisburg eventually received, as stated previously, an all-American City status. Now, Harrisburg was not alone in improving themselves through this method of tax reform. Approximately 16 cities have reformed themselves in a similar manner. The Commonwealth is the leader among the states in this method of tax reform. Its apparent efficacy and the necessity of the form will become obvious as it's studied in greater and greater detail.

Now, if the municipal officials of the City are wise, Philadelphia will soon join the rank of cities in Pennsylvania that have been improved and reformed. This would be appropriate since the greatest champion and popularizer of this reform was born and bred Philadelphia, the economist Henry George.

And that concludes my remark, Madam President.

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

Ms. Lamond, do you have prepared testimony?

MS. LAMOND: Yes, I do.

COUNCIL PRESIDENT VERNA: If you'd like to simply summarize it, we will give a copy to the stenographer and it will be transcribed.

MS. LAMOND: Well, it's only about six paragraphs.

COUNCIL PRESIDENT VERNA: That's fine.

MS. LAMOND: My name is Melani Lamond and I've been a resident of the University City area of West Philadelphia for about 30 years and a Realtor in that area for 18 years. Under Mr. Saidel's proposed land value tax, I want to say that the property tax on my home and several properties that I own would increase. They happen to have a large around of land. But I'm in a hundred percent in favor of his proposals. I believe that we need to change our tax system now for the good of our City. And I also realize that the increase in my property taxes would be offset by decreases in wage and business taxes. I urge you to make these changes as soon as possible.

I want to make two comments. First, as the Secretary of the University City Community Council, an umbrella organization composed of numerous community groups in University City. I'd like to report that the Community Council and Councilwoman Jannie Blackwell held a town meeting for University City neighbors on January 17th at which Saidel and Mr. Mandel explained their proposals. Following a question-and-comment period, we took an informal vote and found that of the approximately 100 neighbors present about half a dozen were undecided and everyone else present was in favor of Mr. Saidel's proposals. No one opposed them. There has also been favorable discussion of the proposals on our local University City e-mail list serves. We believe that this is a strong endorsement from our area of the City.

There were some other people here earlier from City University not schedule to testify. One of them, John Holland is still here and some others were here earlier to support this.

Secondly, as a property owner in University City, I'd like to give an example that helped our town meeting understand how the current tax structure preserves the status quo right on Baltimore Avenue, a commercial main street in University City and slows down the revitalization of Baltimore Avenue and of our City.

My husband and I recently bought a little three-story storefront with two apartments above it at 4728 Baltimore Avenue. It's lot size is 864 square foot and the annual property tax is $926 or $1.07 per square foot per year. Next door at 4730-34 Baltimore Avenue is a vacate lot about four times the size of our property at 3,450 square feet. The building on that lot burned down in the early 197Os. Its annual property tax is $79 or 2 cents per square foot per year. $1.07 per square foot for my property and 2 cents next door, with each lot having the same 3C zoning. For 30 years 4730-34 Baltimore has been a weed-filled vacant lot which is detrimental to the rental of my storefront and an unpleasant intrusion on our struggling commercial block. Yet under the current tax system, the lot's owner is under no pressure to make any improvements, not when he's paying $79 a year in taxes.

For us to maximize the potential of our Baltimore Avenue Main Street, we need the more equitable taxing system that Mr. Saidel has proposed. Thank you for giving me an opportunity to ask you to make the changes.

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

Our next witnesses will be...

MR. MCPHERSON: Cathy Harris, Erin Murphy, Jean Gendron, Andrew Hohns.

COUNCIL PRESIDENT VERNA: Good afternoon. Please identify yourself for the record and proceed with your testimony.

MS. HARRIS: My name is Kathy Harris. At a time when Philadelphia is the target of many debates, the one thing that always comes up is the anti-blight initiative and the need for redevelopment. However, forming a plan with a logical sense of order seems to be the big problem.

The schools, a new sports stadium, and neighborhood transformation are top priorities while the incentive for people to stay in Philadelphia is dwindling along with the further reductions in city wage tax.

We've had so may pictures of a brighter future painted that the smoke screen has choked many residents and businesses out of this City. How can we continue to move forward without an incentive for people to stay? How will businesses thrive if their customer base drops? How can you expect people to actually want to invest in a neighborhood when they are not even sure if five years down the road their investment will be their loss? We need your help and we need it now.

Dear Honorable Councilmembers, Council President Verna, Mr. Saidel and many guests, good afternoon and thank you for hearing my views on the City Controller's November 2001 Tax Structure Analysis Report. Thank you, Councilwoman Blackwell, for calling these hearts.

My name is Kathy Harris, resident in the Olney community for 26 years and lifelong Philadelphia resident.

I have with me some pictures that I've used at a Town Watch conference where I led a workshop on community justice. As stand-alones, these pictures are just random pictures; and yet, when I put them all together they paint a picture, a picture of our community as seen through the eyes of visitors, homeowners, potential investors and our youth. Our youth, yes, potential future Philadelphia homeowners.

My visuals clearly example the quality of life that has become so common in Philadelphia. They show physical and economic decay. Not the type of picture you would invest in.

While this is a hearing to review Mr. Saidel's tax report, I feel it has everything to do with anti-blight initiatives. The cuts in the City wage tax, business tax, and real estate tax are all the main ingredients of the logical sense of order that we should follow in hopes of reviving this City.

After hearing the presentation given by Mr. Saidel and his staff at the University City Community Council, I was convinced that the land value tax proposal seems to be an excellent idea and one of the most sensible approaches in gaining people's trust.

Just traveling through our City streets paints a picture that is not indicative of trust. One minute you may see a neatly groomed row of homes, and with just the turn of a corner you feel as though you are at a theme park where the monorail has delved into the trenches of the horror house and has now become a roller coaster ride that you are struck on. The amphitheater is filled with abandoned cars, vacant homes and the residuals of what was once a thriving community. People are leaving while here we are still on the ride being left to hold on a little bit tighter as it twists and turns, all the while waiting to see where it stops. Then the roller coaster ride is over. We are sick, disillusioned and looking to run from it.

I recently met someone who was looking at a home that has been vacant and boarded up for quite a while. When I asked him if he was interested in purchasing it, he told me he was looking to buy a home but didn't think it would be in my area because it was beat.

Beat? That's how my community looks to

others? It's no wonder why investors and derelict landlords don't worry about the homes or vacant lots they own. Many are absentee owners who only care if they are losing money. Just the very thought of having a land value tax is refreshing and puts the tax burden on the source of the problem.

We already pay a price when we have the potential adoption of vacant lots that will result if these houses are not tended to in a timely fashion. How long do we wait for refurbishing before the expense outweighs the real estate value? When this happens, so does demolition. How many urban gardens can we possibly have? What kind of revenue will they generate when it's the City that will own these properties and ultimately bear the tax burden? It is just not fair that the ones trying are the ones penalized.

It's nice to think that under Mr. Saidel's land value tax plan we could fix the theme of our community without being penalized for caring. We would have inviting streets with homes intact. Potential home-buyers will see our Olney community as inviting. The business corridor will have a much-needed face-lift and ultimately employment will rise. Our youth may have a chance to stay and eventually raise their families and generate fresh tax revenue for our City through employment and residency.

Land value taxation is written with the best interest of the community, resident, and business in mind. We would be rewarded for choosing to stay and ride it out. We are looking for a balance and a plan that is clear, accountable, and credible.

My community and city involvement came through the need to keep my eyes and ears open for a finely tuned plan.

I come before you today in support of Mr. Saidel's tax reform package, as I see it as being the first, well-detailed incentive for a future in our Olney community and the City as a whole.

As a committeewoman in the 61st Ward, I trust you will have the best interest of Philadelphia and all its communities as heart when making your decision.

Who's going to be the last man, left standing in the rubble, or will community justice prevail? Your vote can make that difference. Thank you.

COUNCIL PRESIDENT VERNA: Thank you very much.

Our next witness. Please identify for the record.

MS. GENDRON. My name is Jean Gendron. I'm a resident of Center City. I'm also a CPA. I do not have a prepared text. I've come here mainly because it's bothered me so much to see what's happening in the City.

Unlike Kathy, I'm a relative newcomer. I moved here by choice from midwest about 10 years ago. I've continued to choose to stay in Philadelphia. I love the City. I spent years counseling clients on state and local taxes. And it became more and more apparent to me over the years that I was traveling outside the City repeatedly to visit clients rather than seeing them here in Center City or within the City limits.

I think that you've all heard plenty about the taxes and how onerous they are. I think that for most of my clients it was sort of the combination of all of them. The business privilege tax, which incidentally is not only burdensome, but very difficult to from comply which of from the perspective of the form. The forms are difficult to do to begin with. The wage tax adds employer doing business here.

The other thing that I don't know if anybody mention we've the additional 1 percent sales tax. And that adds basically 1 percent to the cost of everything these people purchase here and use here. When you look at all of these in combination, not to mention, of course, the real estate tax which does not encourage businesses coming in or not to invest in real estate here, it's a little bit much. It's really overwhelming. I think that while some of the moves that have been made in recent years are certainly positive, the gradual reduction in the wage tax and so on, it's clear to me that we need something much, much more drastic than that. We need to do something that will send a message to businesses that we are going to change and we are going to be friendly to business and that this is a place where they want to be. Thank you very much.

COUNCIL PRESIDENT VERNA: Thank you.

MR. HOHNS: Good afternoon, Madam

President, Councilman Cohen. I'd like to thank you both for your patience being here so long. I know it's a long day.

COUNCIL PRESIDENT VERNA: Thank you.

MR. HOHNS: Please excuse my voice. I'm get willing over a cold. I really appreciate this opportunity to come before you today to add a voice to this tremendously important dialog about our current system of taxation that has been initiated by the Controller's Office. We know that its onerous. We've heard as much throughout the day from everyone testifying. There can be little doubt that the system is on of the kew causes of flight from our City. But to hear me now complain or to add my dissatisfaction to the chorus already assembled, it's a theme too familiar to these present for me to recount, and I will, therefore, pass it by. But by what course we have reached present position? By what methods of government we have arrived at this system of regressive taxation? What the external conditions out of which it sprang? These are the shadows that I will try to illuminate before I proceed to any recommendations for action. I pray that for the present occasion you will find to be a subject upon the citizen may properly dwell, and to which all who are here, be the governed or governors may listen with advantage.

In general, and perhaps surprisingly, the City's taxing power is created and defined by our friends in Harrisburg. There are two specific pieces of notable legislation. First, the Sterling Act of 1932 authorizes Philadelphia to assess taxes on persons, transactions, occupations, privileges, subjects, and personal property within the City limits. The Sterling Act also imposes significant limitations on these powers. First, it prohibits Philadelphia, absent special permission from the State, from leaving a tax that the State already collects. Meanwhile, the Sterling Act places a geographic restriction on Philadelphia's taxing authority. It limits Philadelphia's taxing authority to persons and transaction within the City's limits.

Now, courts have interpreted this to allow the City to tax all resident income regardless of where it is earned while limiting tax on non-residents to income that they earn within Philadelphia City limits.

Second and thematically related, the Little Sterling Act of 1963 authorizes the City to grant its school district the power to impose taxes on anything that the City can tax under the Sterling Act except the wages or net income of non-residents and under an income of residents at a rate equal to or lower than the wage tax.

These are the two key pieces of legislation that have lowered our City's government down the pernicious and slippery but often seductive slope of raising local taxes to generate more and more revenue. But additional State legislation has augmented the way the City may tax. There's the First Class City Business Tax Reform of 1984 that authorize Philadelphia to tax the net income and the gross receipts of individuals and corporations engaged in business within the City. This legislation allows the City to alter the rates of these levies, but requires the Pennsylvania General Assembly to act to implement certain other changes to the City's business privilege tax.

I could go on with a lesson in history, but this lesson in history is only valuable to the extent that it allows us to understand the mechanisms by which we might adjust our current position and achieve our ams. Our key concerns that the Commonwealth has forced the City to pay for its own courts, left in place tax anachronisms that drive away businesses and systematically neglected and under-funded Philadelphia's Public Schools are the same elements for whose change we must vigorously lobby and anticipate results.

City Controller Jonathan Saidel and his talented staff, led by Brett Mandel, as well as the researchers over at the Philadelphia Policy Center, have explored ways that the Commonwealth could help reduce the tax burden. They found three things that the Pennsylvania General Assembly could do to help solve our City's tax crisis.

We could technically amend the business privilege tax to help new businesses. We could fund Pennsylvania's courts state level and increase State funding for public schools while exploring alternatives to property tax funding.

In my submitted written testimony, you'll find a longer explanation of each of these, but for the purposes of allowing those here present who have not testified to go in shorter order, I will refrain from saying them here. But focus only on funding Pennsylvania courts at the state level.

The Commonwealth of Pennsylvania, I think, should fund its courts at the state level, thereby removing the terrible burden of court funding from the City. This is made particularly burdensome in Philadelphia because usually counties fund the Commonwealth courts, but here in Philadelphia where we're coterminous, county and City, the burden is even greater. If the Commonwealth were to assume its legal responsibility as reiterated by the Pennsylvania Supreme Court in 1996 after prior decision in 1987 and implemented a unified court funding system with funding provided for court operations and personnel, the City of Philadelphia could reduce its current tax expenditures by approximately $111 million. This would allow the City to lower its wage tax by shy of 10 percent to the benefit of all Philadelphia residents and business.

I know that it will not be easy to make these crucial changes to reduce Philadelphia's taxes. They will be opposed by those who are not familiar with the history of the problem; so let us seek to inform. They will be opposed by those who not realize the critical role that Philadelphia plays in the Commonwealth's economy; so let us be articulate. And for those who lack the vision to imagine what our great City would become if taxes weren't forcing out businesses and residents; let us be ambassadors of that vision, showing that with Harrisburg as an ally, there are few things that we can not accomplish in a host of cooperative ventures; so let us go fourth carrying this message as a delegation and as a people joining with other struggling cities and counties to transform these disease into reality.

Please allow the record to reflect that I thank Councilwoman Blackwell for calling these hearings. I thank you both for your patience and consideration bid you courage and fortune in your resolution of this great matter.

COUNCIL PRESIDENT VERNA: Thank you all very much.

Out next witness is...

MR. MCPHERSON: Chris Patusky, Eli Massar, Betsy Masters, Francine Denise Braithwaite.

COUNCIL PRESIDENT VERNA: Good

afternoon. Kindly identify yourself for the record.

MR. PATUSKY: Chris Patusky, resident of Fairmount and deputy director and chief operating officer of the Fell Center of Government of the University of Pennsylvania.

Thank you, President Verna and Councilman Cohen for staying the hear the citizen voices. God bless you. I'm going to pass over my unprepared statement except to make a few points. My written statement actually is the Controller's Report which I think represents one of the finest pieces of public research and writing that I have read and was written with no motive other than saving this City.

The basis of my opinions on the tax system in Philadelphia are that during the 1990s I founded six start-up companies in the DC area and in Florida. And so I have a fairly long record of experience with what factors go into a business deciding whether to come to a certain location. Everyone else has commented on the nature of the taxation system in the City and how it makes this City radioactive to business. You would not come here if you were a business. And as an expert in the start-up field, there's no way around that. However, the City does have remarkable assets that can overcome the tax situation if you make some changes to the tax system. I'm going skip over the details of the Controller's report and just mention two of them.

The first one is that there is an absurdity in the tax system here that Bob Hornick mentioned. He's part of the CPA Council, I believe. He spoke earlier. And that is that you pay taxes prospectively here as opposed retrospectively and you pay twice in the second year. I've never heard of anything like this before. As a business person, if I heard that, the City would have no credibility to me that I could trust that I'd be treated with logical or rational manner. So, first of all, please, enact the legislation that's already drafted to make the taxes here retrospective.

The second thing is the allocation system. If you simplify that and make it only based on sales, then it would coincide -- first of all, if you sell outside of the City, you wouldn't be taxed for those so you could attract large businesses. Also, it simplifies the system for businesses who want to come here.

So those are my two main points, and I recommend that you enact those two and then just get into the Tax Code and you'll see how difficult it is for businesses, first, to understand it and then to apply it.

I spent nine months going over this Tax Code, and I still had difficulty understanding how it applies to business. I can't imagine how the average business person can understand it. Thank you very much.

COUNCIL PRESIDENT VERNA: Thank you. Our next witness.

MR. MASSAR: Madam President, my name is Eli Massar. And as you maybe able to tell from the way I'm dressed I'm a student, yet I am a permanent resident of University City. I thank you for the opportunity to make these comments.

As I've submitted the written testimony, I'll just focus on two major points within the testimony.

Point No. 1 would be that by eliminating the wage tax cuts, the current proposed budget presentation I think represent the breaking of a promise to business and residents, and that is the promise that began in the mid-1990s when City Council began reducing gross receipts and wage taxes together. The promise that it might be slow, but the next year would be better than this year and 10 years later would be even better than it is now. With close to a decade of these cuts, Philadelphia is just beginning to become a reliable and long-term residential and business investment. Assuming the recent headlines are an indication, the current budget proposal could potentially erase this newly positive reputation almost overnight. Consider the following:

The morning after the budget presentation, the Inquirer headline did not read "City shifts tax cutting effort to a more stimulatory gross receipts tax." Instead it read, "Mayor halts the wage tax cuts." And I'm very concerned that after almost 10 years of progress in reducing wage taxes and business taxes that this may, in fact, have the impact of ruining the beginning good reputation that the City has built recently.

The second point I'd like to make or

summarize would be that without a doubt the gross receipts tax is terrible. However, it may not be the most important tax, given a limited budget that we must cut. And I would propose that we may, in fact, want to look more seriously at the net income tax.

I'll just give one example of why I say this. And that would be the gross receipts tax cuts currently is 24 cents for every hundred dollars that a business collects. So I'm wondering whether it's the 24 cents that you have to pay on a hundred dollars or the $4.50 that a business has to pay for every hundred dollars of labor that it employs or the $6.50 that it pays for every hundred dollars it makes in profits.

So given that comparison, I'm hoping that maybe we can reevaluate whether or not the gross receipts tax cut is the most important and efficient way to stimulate the economy here in Philadelphia. Thank you for the opportunity to speak.

COUNCIL PRESIDENT VERNA: Thank you. Good afternoon please identify for the record.

MS. MASTERS: Good afternoon. My name

is Elizabeth Masters. I'm here to testify as a citizen of Philadelphia. I'm an architect with my own business here in Philadelphia. I'm also adjunct professor at Temple University. I've served as president of the Chestnut Hill Community Association, and I'm also a member of the AIA's Task Force for Neighborhood Transformation.

First of all, I'd like to shorten my a written testimony and cite the technical expertise that we've heard earlier and observations and experiences of many others. Ditto.

For Philadelphia's future I envision revitalized neighborhoods and the creation of new businesses and jobs all leading to more opportunities for everyone. But to achieve this, we must take action now. I am here to ask that you adopt City Controller's tax reform package, reform the system, lower the tax burden, and do whatever it takes to make this happen. In fact, I think the proposal could be even more radical.

Philadelphia is a city with tremendous assets, but the disadvantages currently outweigh the advantages, it seems. And review of statistical evidence that we've heard today supports this point of view. Knowing these facts, I really have to ask, "What am I doing here?" And anyone else who reads the facts would certainly ask that question.

So I feel that we really need to make changes now. Philadelphia taxes are too high, all of them are too confusing, and the forms are absolutely impossible.

Saturday a week ago the Chestnut Hill Business Association sponsored a retreat to examine the future of Germantown Avenue. Attendees expressed much concern about vacancies and the difficulty of drawing new businesses to the Hill. High taxes and City red tape were identified as the top problems deterring commerce on the Avenue, not our own Chestnut Hill issues. So these City issues really were on the minds of all the participants. If business is sluggish on the Hill, a setting which is already attractive and vibrant, what prospects do other neighborhoods have?

The Metropolitan Philadelphia Policy Centers Flight or Fight released last fall articulates the urgent need for a transforming vision and high-impact policy change. One of their key recommendations is to reform and restructure taxes. Doing so will make Philadelphia more competitive and the City Controller's tax reform package is one possible answer to the call for reform.

You, the members of City Council, have the power and authority to seize this opportunity to change the course of the City's decline. It is time to institute innovative solution to lower and simplify taxes. It is time to cultivate new opportunities. Tax reform is a keystone in the process, and you can achieve it now by adopting the Controller's proposed reforms.

And I think it's really important to keep our sights on the long-term view and the long-term effect, and not just solving short-term problems. Thank you very much for hearing me.

COUNCIL PRESIDENT VERNA: Thank you. I'm amazed that anyone has mentioned the U and 0 tax, which I think is so erroneous, Use and Occupancy.

MR. PATUSKY: I think it also is a terribly onerous tax, however, the fact that the proceeds go to the School District I think mitigates some of the bad feeling I have about that one.

MS. BRAITHWAITE: And I think it's still rotten. My name is Francine Braithwaite. Legally I'm known as Ruda Bartholomew on a day-to-day basis and I live at 1900 JFK Boulevard, a property that's likely to be impacted with taxes that are probably two-thirds higher than the people across the street by the proposed changes in the Tax Code and may even cause the building of a lot that's right at the corner across the street from the stock market, thus giving me no access to sunlight ever again in my life.

These proposals are sufficiently compelling that I want to see them happen even if there are what might be small hits on my life. This City has to grow. And, you know, this thing is getting in the way of my love life. Not as a lover thing. But I have friends who come from all the surrounding area to a church at 17th and Spruce Street year in, year out, as single people. The minute they get married and have one child, they're out. They love the City. They want to be here. But they get up and they walk over and over and over again. Now, maybe there's a spiritual thing that can hold them a little bit longer. But I don't want my life affected in that way. Single people from Wayne and from Peterborough, I mean people come from everywhere because they love the City and yet they can't stay here.

The last time you heard about this tax in a serious way it was called the "Dah tax." The land value tax is the "Dah tax." It's so compelling, it's so equitable, it's so clean, it can be administered so transparently and with such ease that I've seen people in the political spectrum from Libertarians to Republicans to Democrats to the Green Party all adopt the land value tax as part of their platforms. And simplified taxes are good. Right now, there are just too many taxes. There's inadvertent noncompliance going on constantly. As we use this "Dah tax," this really smart way of valuing locations in the City and then taxing accordingly, as we focus in on that way of taxing, we're going to have compliance because people can do it.

I can't do my taxes as they stand now. I have lived here now 14 years. I'm a New Yorker by birth and I've lived in a number of other places. For all the years that I've worked here, I've had a few occasional jobs where I didn't have taxes taken out. I would be very hard pressed to tell you how to get a wage tax form so that I can pay my taxes. I'd like to do that; I just don't know how. And I bet you there's a lot of that going on. And that's not a good thing for you.

One of the things that we're talking about with the land value tax is location, location, location. Everybody knows that if you put your business, let's say, a Wendy's, at 15th and Chestnut, you're going a whole lot more business than if you put it in the middle of a set of contracted houses in the Northeast. It's just going to happen. There are more people walking past with lively eyeballs and a desire for the things that they need. And that walking effort adds to the value of that property. The drive-by value, not to mention all the infrastructure that we've heard about, fire, police, et cetera. We are creating the values. The whole community creates them. Thousands and thousands and thousands, I can say that, of that value is being collected per adult in this City right now by somebody. It isn't the City. It isn't the people of the City. It's going into the pockets of people who are doing a good thing and some people who are doing a bad thing. We're giving this value and we're not receiving it back and then we spend all of our time on our knees begging Harrisburg and the Feds and Habitat for Humanity and everybody to subsidize us. We let them walk away with our stuff. We can't continue to beg it back. We've got to capture those values that people make through the everyday efforts that go on in the City. And that's the way to go.

I will address three things that have been mentioned to me as problems in the last little while. One is the problem of side lots. Folks are very concerned that people in the neighborhoods who have reclaimed vacant land and made it pretty or usable by themselves, their families, perhaps by their neighbors, would be unfairly and unduly taxed. It's a concern that needs to be addressed just as a much as Alanna addressed the gentrification issue. In these neighborhoods that have had these specific reclamation efforts where there has been demolition and a side lot has been created, the land values are already very, very low, so they're going to be taxed at a very, very low rate. And what we see with the analysis that one can find on Hall Watch or some of the other boards, in many of those cases, there will be a slight increase in land value tax for both properties. But it will not as much as the decrease from houses and the decrease from wages. So people expended this kind of energy to make something good for their neighbors will still continue to receive good value and not, in general, paying more taxes, especially those areas where there has been demolition. They will not be paying more taxes even with the addition of one side lot. They'll get a smaller decrease than the rest of their neighbors in the decreases that come with the decrease of taxes on housing. So that's one thing.

The second thing is car dealers. I think we all appreciate the car from time to time, even me who lives three blocks away and walked here. Cars are important. However, public transportation is more important for a City to be lively. And the same things that are done for other kinds of warehousing of goods need to be employed by those car dealers. Things that need to be done by people who own flat parking lots also need to be done by those car dealers. And if they're land location value taxes do tend to go up by doing things like vertical building of dealerships and that kind of thing, if it's so onerous to continue to hold on to the property next to one, then maybe that whole area full of car lots would be enhanced by a coffee house or housing or by having restaurants and book stores and whatever in those areas. You know, I can't lay the solution right on top of them, but they're going to have to do what the rest of us do, which is develop the property appropriately so that there's maximization of the land values there. They tend not to be that high in some of the areas where there are car lots that I've seen. But there are car lots within the city of New York and they are well-used, and especially with more on demand of supply of vehicles. As the need for the specific vehicle to show up in the lot improves out of Detroit and other places, it's a less necessary thing to have a huge inventory of cars on a way spread out lot. It's just not as necessary.

The third thing would be the tank farms. We're concerned. We want to have access to oil and petroleum products in the City. There's no doubt about that. We provide them with our waterfront.

We provide them with our fire prevention and fire put out services. We police them in a number of ways. We send roads in so that their workers can get to work. We give up rights-of-way for pipelines. We incur costs in fuel transfers in the City and outside of the City. This is a hard thing. I don't want them to be hurt terribly. But I do think if we value the land correctly, there can be even things done there like they're not being afraid to further enclose their tanks so that they're harder to go into flame. We've had a few flame-ups every once in a while. They wouldn't be so afraid that building something to contain those liquids more carefully would be counted as building that they would be taxed on. So all of it would be a whole lot safer. Things about the way the waterfront is used can change. And I know that they're important. I know that I don't want to pay higher bus costs because the oil and the petroleum is more expensive. But I think if you look at the whole City and its needs, you'll say, We'll incur some costs here and we'll lower some costs there. And I think there's still a good chance for a good outcome.

The last thing I wanted to say is there's something very significant going on in Harrisburg that Alanna Hartzok spoke of. Going from 4200 abandoned lots and abandoned buildings to fewer than 300, even if it takes 20 years, and it wouldn't take that long here, without major subsidies from the Feds, without major subsidies from the legislature that is housed there, that's something significant. We have an opportunity in this state over all to do something that we can't do in many other states. We're the only state that expressly says you may tax a building and the land it sits on at different rates. This is part of the benefits that we've even received from the Ridge Administration. But here in Philadelphia, we have an opportunity to do that kind of changeover with much stronger effect because we've got a city, a county, and a school district that all operate in the same boundaries and have similar if not the same legislatures who can make those decisions about revenues and all of that.

So as we look at this, there's a chance for us do an even better changeover. Every time one of these cities increases the multiple between the land and the building, every time building permits go way up fast, that's work; that's income; that's jobs; that's a City.

So please let's stop letting our value walk away. It's our value. We put it into the location, the very calories that we use to walk past a building. So let's capture those values and land location value taxation and see what happens and stop punishing people for doing what's right. That's my comment. Thank you.

COUNCIL PRESIDENT VERNA: Thank you so very much. We really appreciate your patience. You were all patient. You've been sitting here all day, and we certainly appreciate. Thank you.

Our next witnesses.

MR. MCPHERSON: Joan Sage, Kim Harold Brown, Patricia Lowe, Richard Biddle.

COUNCIL PRESIDENT VERNA: Joan Sage. Good afternoon.

MS. SAGE: I am Joan Sage, and I have lived in Philadelphia for 18 years. And having worked here as a social worker, I'm upset when I see Philadelphia lose people, jobs, and businesses that make a City thrive and see homeless people in a City full of houses and probably more with the people being thrown off welfare March 3rd.

What can you and I lose with the Controller Office's new tax plan that would reduce taxes on people who work, live, and do business here except to reverse this decline. And with a site value land tax, property taxes would go down for 80 percent of owners and abandoned houses would disappear without expensive wholesale destruction. We have 17 Pennsylvania cities as well as cities worldwide as proof of the land tax can and will make these things happen. If Harrisburg can see abandoned properties disappear by using a land tax, so can we.

Friends, neighbors, and business people bring positive, productive activity to our community and yet they are penalized for doing so by inefficient nuisance taxes. Yet there are absentee owners of neglected properties that depress our area and obviously can afford to produce nothing, just sitting and speculating, waiting for our tax money to increase the value of the area and then make a profit by contributing nothing and taxpayers pay for their profiteering.

You can turn this around by making those nonproductive land speculators, polluters, and absentee owners of neglected properties pay up or shape up with an incentive tax, as the land tax is called, to use it or loss it to those who will contribute to the life of the City. You can stop the present decline by being innovative and willing to make changes. You can bring the City to point of being the next most affordable City in the country to live, work, and do business in. Your constituents are watching you and will thank you for meeting this challenge. Thank you for listening and for your consideration.

COUNCIL PRESIDENT VERNA: Thank you, Ms. Sage.

MS. LOWE: My name is Patricia Lowe. I gave out some written materials. One was a copy of an article from Philadelphia Magazine called "Might Makes Blight." It's an editorial supporting land value tax. My concern was with the first paragraph where the Mayor says that it would be unworkable. So Mayor Street pronounced it unworkable. I want to address that.

First, I'd also like to say regarding

some thorny problems like gift lots and refineries and car dealerships and all that, a sensible zoning goes a long way to avoiding any inequities taxation like that because, as we know zoning, proper zoning defines the highest use of the property. Zoning laws define the highest best use of the property and that would determine the market value and the assessment.

My question is about specifically what are dealers about gross receipts tax. Well, they have a receipts selling new cars. And I kind of doubt that whatever real estate tax they pay current or future is anywhere near the amount of the business expense that they incurred for taxation by gross receipts tax. And I would say the same goes for oil refineries too. Taxation on the sale of the oil that they make represents a higher proportion of the cost of their business than whatever tax they would pay on land which is basically zoned, I guess, as nuisance land. And if it isn't, it ought to be.

Now, regarding the unworkable part, I figured maybe that's what he was talking about, gift lots. Maybe the Mayor meant that. I know they're high and dear to his heart and all. But maybe he was talking the assessments, the state of real estate assessment in Philadelphia as it is today where the state -- you know, the State of Pennsylvania, when one goes to transfer real estate and buy tax stamps for the deeds, you have to fill out a form that says what the assessed value really ought to be and you have this equalization ratio, you multiply it with. The State really doesn't trust the City assessments.

But my point -- and this is what I'm concerned with. There's a second page of the handout. If you go to the Delaware Valley Regional Commission and get on their web site, you can see the aerial map they've made. You don't see the pictures, per se, but you see a map like this where I marked Philadelphia with black and yellow boarder. And that can be blown up. All of Philadelphia is available on one CD. Maybe City Council would splurge for one among all the Councilmembers that they could share and they could download Ark Explorer, which is bat program for free from say University Pennsylvania Neighborhood Information Center, their site. And they could view the aerial photographs right in Ark Explorer and they could get some files from the Mayor's Information Services Office, can get street map to overlay on the aerial photo map and then they would get a sense of where the lots are in the City just by clicking a mouse. And eventually when the coordinants are all matched up and some technical solved, which might be solved already as far as I know judging by the quality and all of the Delaware Value Planning Commission's maps, the assessments annual tax assessment will be as easy as a click of the mouse when they go to update their assessments because you must realize that you have to accurate and up-to-date assessments to make the land tax workable.

The other thing was the last page that I submitted is also part of their brochure, which I didn't get a chance to go to the Borse Building and get Delaware Valley Regional Planning Commission's color brochure, but you see one page of that, and that has the prices. The $665 for Philadelphia, that's 5 CDs for the map files, the aerial photos of the whole city in a graphics format called TIFF or T-I-F-F. But if you get it in a compressed file called Mr. Sid, then that's on one CD and that's $399. And that's the file that you would need, most likely, to read it in Ark Info or Ark Explorer. Ark Explorer particularly which is available for free over the Internet. So City Council can do its own little search about that.

COUNCIL PRESIDENT VERNA: Thank you, Ms. Lowe.

Mr. Biddle.

MR. BIDDLE: I'm Richard Biddle. I live at 140 Bethlehem Pike. I just moved back in the City two years ago. Of course, sometimes I wonder why I did it. I must have my head examined. I moved back because of the quality of life. You know, there are some problems.

The one I'd like to talk to you just off the cuff today is what I've run into in terms of real estate assessment practices in the City. They are certainly better than they used to be. I was a resident here 30 years ago. They were strictly political. They were run by, I guess, the committee person in the neighborhood depending on whether you were in favor or not in favor the level of your assessment. They've gotten a lot better since then. But when you look at the land and building split, you run into a horrendous difficulty. And I think it's the same difficulty that the gentleman from the Auto Dealers Association was alluding to. I don't that they really did their homework in looking at the accuracy of the assessments. And I'll give you an example.

The example relates to the Longstreth residents in Chestnut Hill where I live and the Rizzo residents in Chestnut Hill where I live. The Rizzo residence is just shy of an acre. The assessment on that lot is $17,000. The Longstreth residence is three-quarters of an acre, the assessment also $17,000 an acre. The Biddle residence is one-quarter of an acre, 11,000 square feet, it's $29,000 or about 2.60 square foot as opposed to -- if you go across the street there's residence that was purchased about the same time, bigger lot, in fact, 27,000, better than twice the size of my lot. The people got a better buy on it, probably. They paid a little bit less. But the fact is they have a much bigger lot. My assessment renders $29,000 in land. Theirs is $9,000. These are 1999 assessments.

COUNCIL PRESIDENT VERNA: Mr. Biddle, did you ever appeal?

MR. BIDDLE: Oh, yeah. I'm in the process of doing that right now. That's not the issue. The real issue is that we need a complete reassessment of every parcel of Philadelphia real estate at once. We don't need this piecemeal action that the BRT has taken in hand as of 1981 or 1982 called the Green Coleman agreement, which actually ran out in 1987 or '88. We need the BRT to do its job to assess land values and building values accurately.

If we're moving to a land tax -- and I'm very strong advocate of the land tax. I pay $2100 more. The Rizzo residence and the Longstreth residence as of 1999 paid a couple hundred dollars less. My neighbor with a bigger lot pays a couple hundred dollars less. If we went to a complete land tax, my real estate would be $20,000. My neighbor's would be, instead 4,000, 3500 on their bigger lot. So that's the kind situation that we're into. And that's also kind of situation that the auto dealers, I think, are describing, but not really looking at. And maybe they need some help from the City Controller's office to address that.

This has been a long day. Thanks very

much. I think that's a wrap.

COUNCIL PRESIDENT VERNA: Thank you so much.

Thank you all very much. You've been very patient.

Kim Brown was called. There was no answer.

Who is our next witness, Mr. McPherson?

MR. MCPHERSON: Bruce Andersen, Greg Pastore, Jacob Himmelstein, and Ralph Treadway.

MR. MANDEL: I am handing into the record Greg Pastore's testimony. I also have Erin Murphy, another Philadelphian who came but was not able to give testimony. I'm handing in a copy of her testimony.

COUNCIL PRESIDENT VERNA: Thank you.

MR. HIMMELSTEIN: My name is Jacob Himmelstein. I'm chairman of the Pennsylvania Fair Tax Coalition. I'll only take two minutes of your time. I'm also professionally involved in taxes since I'm a public accountant, so I know a little bit from that point of view. And this happens to be not the first time I've testified in City Council about the land value tax, but the third time in 20 years. And I've always testified in favor of it, and I plan on doing it this time.

The only thing that I would like to point out is that Allentown, their tax structure is in their Home Rule Charter. And the land value tax was actually voted on by the people of Allentown, not once, but twice and passed twice. And the biggest opposition came from the automobile dealers. But they were unsuccessful twice in financing a campaign against it. So that's all I want to say. I'm in favor of the land tax. My statement is being submitted.

COUNCIL PRESIDENT VERNA: Thank you very much.

Please identify yourself.

MR. ANDERSEN: Good afternoon, Madam President. My name is Bruce Anderson. Thank you for the opportunity to speak on the issue of tax reform this afternoon.

First of all, let me say my testimony that I have submitted may sound harsh or may sound a little hyperbolic. But I like Philadelphia and it's one of the reasons that I'm here today. I currently reside in West Philadelphia. My wife and I moved here in 1999 from San Francisco. She's a graduate student at Penn. She's earning a doctorate degree. When she's done getting her education, we're leaving Philadelphia. The City is a place with history, but we don't feel that it has much of a future. This is not where we want to raise our family.

As a relatively newcomer, I look in awe in a lot of the things that Philadelphia has, the Art Museum, City Hall. It has a lot of great history. But I look with sadness at what it's become.

Many of the problems that the City has have been years in the making, 40, 350 years. And people have not had the courage or the vision to change it.

If you look at the best cities in the nation or the ones where people say they like to live there, the highest standard of living, they don't have a tax system like Philadelphia has.

Philadelphia must choose to change.

A few years ago I was in graduate school and one of my colleagues was working on his doctoral thesis. And his doctoral thesis related to the gradual decline of Philadelphia post World War II.

The working title of that document -- I never saw the finished document -- was "Philadelphia, They Never Miss an Opportunity to Miss an Opportunity."

Again, Philadelphia must cost to reform its taxes, I think, if it wants to survive, if it wants strive. Personally, I think it needs to cut the wage tax and restructure the local property taxes with an eye towards eventually eliminating the wage tax. This will make the City a better and more attractive place to live and it will reverse the trends of urban decay, suburban sprawl, and it will promote economic growth. And I don't think I'm saying anything new here.

But, again, Philadelphia wants to market itself as a knowledge capital with all its universities, with all of its institutions. But if the people when they get here do not find it an attractive place to live because of its taxation, they're going to leave as soon they get the education. And that's what happening in our case.

I'm not being naive and saying and thinking that the City can do this on its own. But I believe that Philadelphia must take the lead in promoting regional cooperation. State laws control many of the problems. The City needs to work on working with the suburban hubs of growth and getting a comprehensive regional agenda, going to Harrisburg and solving these problems.

I want to, again, thank you for the time. I do like living in Philadelphia, but it's a difficult place to live in at times. And I wanted to address that issue. Thank you very much.

COUNCIL PRESIDENT VERNA: Thank you so much.

Our next witness. Please identify for the record.

MR. TREADWAY: Good evening, Madam President, Members of Council. My name is Ralph Treadway of Eatontown, New Jersey. I thank you for the opportunity to speak to you about the very important issue, the land tax. I'd like to congratulate City Controller Saidel and his staff for a very courageous report and a very comprehensive report, the likes of which we have not seen in New Jersey in the past 30 years.

You're in the process of deliberating on making use of most potent urban economic development tools available for Philadelphia or any other city.

Real property taxation based on land values. However, my brief comments will be on the equity and fairness issues involved in real property taxation. They have been touched on briefly and alluded to, but not directly as I'm going to say it and certainly not 1quite as harshly as I may be saying it.

It is my belief that real property tax mechanism as practiced in Philadelphia and other cities as traditionally practiced in America and especially in New Jersey is often as restricting as limiting and as unfair as any of the old discriminatory laws from the old era of the old south. Maybe while this may be true, of course, the real property tax was not instituted and is not maintained with the same motives that lay behind the old Jim Crow legislation. However, unintended discriminatory aspects of the current Tax Code are a function of the evolution of an un-reformed property tax code in the light of sweeping technological change.

Just a brief digression into history as how we got here, because the purpose of this paper and my comments to point out that the time has arrived not only here in Philadelphia but across the nation and especially in many of the cities in New Jersey where I've gone research for property taxation change because the property tax as traditionally practiced is no longer applicable and no longer efficient for urban areas.

Changes in the transportation technology, primarily the widespread adoption of personal transportation modes, the auto, and the withering of city building land use guiding centralized transportation modes had rendered the long-standing manner of real property taxation not only obsolete, but counter-productive and made the Real Property Tax Code as practiced in Philadelphia and elsewhere across America, a barrier to economic integration that work at cross purposes if not undermining the struggle for civil rights over the past 40 years.

The end of World War II began an era of unprecedented property that has changed the entire nation, but left many cities, especially in New Jersey, or part of them economic backwaters. Right after the war in the American south, the rural population challenged by changing agricultural technology at home and buoyed by the success stories from up north began a new wave of immigration to our northern cities hoping for the same opportunities that those same cities gave to previous waves of immigrants, including early migrants from the deep south.

But the cities impacted by new transportation technology, changing fads and fashion were unable to provide the jobs, the means to, and the passage into the middle class as they had done for many in the past. Jobs were leaving the cities. Dwindling economic activity reduced cash economy opportunities. Falling real estate prices eliminated opportunities for sweat equity development. And indeed, wiped out a lot of sweat equity development that already begun.

Indeed, no other previous immigrant group came more prepared to work hard, better prepared linguistically culturally than the post World War II immigration wave to the cities. But the cities were unable to provide the economic base to move that group, as they had many others, into the ranks of the middle class within a generation. Indeed, economic loss crushed hopes more than norm than economic prosperity.

Because of the change in transportation technology had not been properly adapted within urban conditions, the property tax have mutated from a progressive city-building institution to a malfunctioning revenue system that discouraged economic change, stymied individual initiative, rewarded sloth, changed negative disinvestment and speculation to being the only smart games in town and made economic development a semi-political process where connected developers competed for the best deal, usually one that protected them or insulated them from the same run-'em-up tax system that afflicted everyone else.

Gone are the incentives for the sweat equity developer who after long days of work goes home to work on is house or on the one down the street he hopes to sell or rent out. Sweat equity developers, the guys and gals who built most of our cities, but they didn't build the big buildings in the cities but neighborhoods that made those cities work effectively, are now shut out of the development process that once was a great path to economic betterment.

We'll skip a little bit here.

Economics may not be really a dismal science as often label to be, but it is an opaque science of layered consequences where all the causal relationships are not always evident or clearly outlined. But evidence of urban and downtown decline over the past two generations clearly points out that cities and downtowns have not benefited from the sweat equity developer, the little guy, and that he has been locked or excluded by a pernicious tax system.

Wherever there are abandoned buildings, a shortage of decent living space, squalor amidst plenty, the market and the American spirit as embodied in the small-time sweat equity developer is being that thwarted by a malfunctioning tax system, sending out the wrong signals, rewarding the wrong behavior, denying a self-betterment opportunity that was there for many in the past but not allowed today. That, ladies and gentlemen, is economic discrimination, the effects of which are no less evil than the intentional discriminatory laws of the past.

For few examples, if I may, in a

battered tattered southwest corner Asbury Park, New Jersey, every single residential property in a 16-block area will receive a tax cut under a land value base tax system, tax cuts that average 40 to 60 percent per dwelling, under a city-wide revenue neutral land value tax. Real property tax liabilities for each block in this department area would have declined by an average of 50 percent. Could you imagine the incentives to develop, especially for the sweat equity developer, in a neighborhood where taxes have dropped by an average of 50 percent and taxes won't rise appreciably on newly renovated building? However, the City Council of Asbury Park has recently passed on to a new waterfront developer the same tax advantages enjoyed by the previous waterfront developer whose failure held up and tied up waterfront development for more than a decade.

In Patterson, New Jersey, which hasn't revalued its properties in nearly 40 years, a land tax of 117.6 percent would have to be applied to land values to raise the same level of revenue. Yet with a land tax of 117.6 percent, 80 percent of the residential properties in Patterson, New Jersey --

20,000 properties -- that's small by Philadelphia standards, but 80 percent of the residential properties would receive a significant tax break on the order of 30 to 40 percent. Wouldn't a tax break and removal of the threat of sharply increased assessments and taxes due to renovation efforts be a commanding incentive to pour one's sweat and time into the city's properties that is denied them?

In neighboring Camden, part of the Philadelphia greater metropolitan region, whether you like it or not, a land tax six times the current property rate, 25.9 percent versus 4.04 percent, would bring tax relief to nearly 80 percent of the residential property owners and remove the threat of increased taxes for renovation efforts. In Camden this is critically important because Camden has the lowest ratio of assessed improvement value to total assessed value of any municipality in the state. That, ladies and gentlemen, is why Camden is where it's at. Camden assesses its land value at a rate of roughly 16.5 percent, much of the total assessed value. And that carries through on the individual assessments of the 33,000 properties. Wherever the tax on land is the lowest, that is the poor he is

City. That happens to be Camden's distinction. It's in much better shape. Camden is in much worse shape than Asbury Park; and Asbury Park is not in great shape. Much worse shape than Newark; and Newark is not great shape either. And it goes Paterson and the other cities in New Jersey.

Raising the property tax in Camden by a factor of 6, applying it to land will bring real property taxes on residential properties to approximately the Camden County average. They are now about 18 percent higher how than the county average, but erroneously applied to 83 percent of the total assessed value.

An additional note, Camden's ratio of assessed improvement values as noted above, is the highest in New Jersey at 83 percent where the norm is closer than 60 percent. Based on the limited Philadelphia data that I have available, Philadelphia's ratio is 77 percent. Not a great percentage. Asbury Park's ratio is approximately 76, 77 percent. Newark is probably about 74 to 75 percent.

The City of Philadelphia is moving in the direction of a 50 percent ratio. It is a move certainly in a right direction and a movement away from the abyss to which your neighbor to east has sunk.

I thank you, ladies and gentlemen. I'll entertain any questions if anybody has the energy.

COUNCIL PRESIDENT VERNA: Councilman Cohen, do you have any questions?

COUNCILMAN COHEN: One question on the very last comment. What do you mean about Philadelphia moved or is moving?

MR. TREADWAY: The proposal to base the land tax 50 percent on improvement values and 50 percent on land values brings the ratio of improvement taxes to total taxes to 50 percent. That's a movement in the right direction. Currently, Philadelphia taxes roughly about 77 percent of the total tax comes from the improvement. So Philadelphia is certainly moving in the right direction, away from -- in the opposite direction that Camden is in and opposite the abyss, to repeat myself.

COUNCILMAN COHEN: What would the ultimate ratio be if we moved to fully land use value?

MR. TREADWAY: Now you're talking my language. I'm the radical or the bull in the china shop. I certainly believe in that. If we went to a full land value, than the hundred percent of the tax would come from land values.

Now, in the City of Asbury Park, if the --

COUNCILMAN COHEN: The ratio would then be zero?

MR. TREADWAY: Zero. Improvements would pay zero and land would pay the entire bill.

In Asbury Park, which has a tax rate 68 percent higher than the Monmouth County average, their land value assessments and improvement property values are roughly one-half to two-thirds, a little less than two-thirds, than neighboring blue collar towns. If Asbury Park were to adopt a full land value taxation, in other words, shift over to land totally, they would most likely experience, other things being equal, holding expenses in line, keeping in line with inflation, they would probably experience a two-thirds increase in revenue and a one-third decrease in taxes over the first five years of that initiative.

COUNCILMAN COHEN: Rumors are around that Pittsburgh is moving away from land use tax.

MR. TREADWAY: They did. I am not familiar. The New Jersey papers and the national papers don't cover Pittsburgh very well. But I think there were some political factors. I don't know the exact reason. I do know that Pittsburgh has overcome the economic downturn caused by the contraction of the steel industry, which initially started to impact Pittsburgh very seriously. They seem to have survived that, and Pittsburgh was recipient of several national awards over the late '80s, early '90s era. The recent reasons for the refusal to go that way, I do not know.

COUNCIL PRESIDENT VERNA: I believe that was already covered in the record.

MR. TREADWAY: I believe it was, yes. I would state that New Jersey at one time, 30 years ago, under Governor Cahill's Tax Proposal Commission, a courageous report done, as I said, 30 years ago, did recommend that all of the cities in New Jersey move to a land value site value tax. And they even proposed a five-year formula do it in steps. So that one would not suddenly -- it's like pulling off a major Band-aid on a major wound, inflict a lot of pain.

Just for an example, if one were to shift to a land value tax in Camden tomorrow morning, of course, 80 percent of the residential properties would receive significant tax cuts. But those piles of scrap steel, the land under them would receive tax increases of about 480 percent. Right now, it would seem as though the scrap steel has votes in Camden than the people do. But that would -- Governor Cahill's proposal of 30 years ago would ameliorate that and make it a five-step method so that one could plan and adapt one's technology. And technology even of scrap yards and scrap heaps can be adapted and has been adapted to more efficient land use.

COUNCILMAN COHEN: You came from San Francisco. I think you'll be missing a good bet if you leave Philadelphia upon graduation. We'd like to keep you and your energy here.

MR. ANDERSEN: Thank you, Councilman.

COUNCILMAN COHEN: Thank you, Madam President.

COUNCIL PRESIDENT VERNA: You're

welcome.

Did you want to testify? Please identify yourself for the record.

MS. FOWL: My name is Sue Fowl I am a homeowner in Queen Village. I would love to stay there. I also have com from San Francisco, lived there for 10 years, came back here thinking this would be a lot cheaper. In comparison, real estate taxes here to Queen Village, we more in California but we get more services. Education is better there. The streets are better. Things are a lot better. Here we're paying more than I did for a home. For $189,00 in California, here I'm paying the same amount of taxes for a $55,000 house. I would like to have the taxes be more even and more equitable for me to stay here and not go back to California because I love the history of Philadelphia. I'm originally from Elkins Park. I love it. I want to stay here. The taxes are getting too high. I want to keep the businesses in Philadelphia. I read that Pennsylvania is one of the few states that taxes on business receipts. We also have a high wage tax. We need to change the business thing so we can keep it in Philadelphia.

Thank you.

COUNCIL PRESIDENT VERNA: Thank you very much.

Do we have anyone else that would like to testify?

MS. BRAITHWAITE: Again, this if Francine Braithwaite, also known as Ruda Bartholomew. I wanted to address two things very quickly . One has to do with the ease of implementing this. We've been told by some that it would be very expensive. Using their projections on how many more feet there would have to be to have full reassessment of City properties, it might cost $7,000 on a one-time basis and then -- 7 million. I'm sorry. $7 million on a one-time basis which we've been encouraged to think might come out of some funds that are available in the Congress. Easily available there. And then after that, it would be a matter of flipping a switch and letting a computer chew up some information for about three minutes. On an annual basis we could update the land values and the assessments. There's very little question that if we went to a totally land based system, it would be the easiest and most transparent way to do the actual taxation.

The second thing is this: We want a land value tax, and it will be good for the City as it is. It's best if it also includes a reassessment a little down the road. And at that point, it would be necessary to readjust the ratios a bit with each reassessment or each five years of reassessment. Pittsburgh ran into a very big problem because despite clear specifications on how the reassessment was to be done, the Saber Systems Corporation just completely forgot, tossed them out of the window, cannot in any way, shape, or form be held accountable for any part of the specifications that the legislature wrote for it. So we've got a situation where there maybe some improvements, but basically we've got an invalid reassessment. And that's the reason for the hold that the City put on it. Everybody in Pittsburgh knows that every time there's been a ratcheting up of the ratio, there's been also a great improvement in the quality of life of Pittsburgh, and nobody is forgetting that. However, without the education as to why and how the land value tax works, in the face of big bills all of a sudden, people are upset. We don't have to go that road. And so I encourage you, where people say it's going to be expensive or complex to do, to say, no, Francine and her friends knows some ways of getting it done inexpensively and clearly. And two, we don't have to have the kind of upheaval that Pittsburgh had. In part, because our movement has not known that large a reassessment before. We just didn't keep track of how important that was. We know now and you don't have to make the same mistake. Thank you.

COUNCIL PRESIDENT VERNA: Thank you.

Is there anyone else to testify on this resolution?

Seeing none, this Committee will stand in recess until the call of the Chair. Thank you all.

(Hearing adjourned at 5:40 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 12, 2002, were reported fully and accurately by me, and that this is a correct transcript of the same.

RE: COMMITTEE OF THE WHOLE

Josephine Cardillo, RPR
and Notary Public

Lisa C. Bradley, RPR
and Notary Public