COUNCIL OF THE CITY OF PHILADELPHIA

PUBLIC HEARING

COMMITTEE OF THE WHOLE

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Room 400, City Hall
Philadelphia, Pennsylvania
Wednesday, February 16, 2005
10:35 a.m.

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BILL 040789 - Amending Chapter 19-26000...

BILL 040767 - An Ordiance amending Section 19-2604 of The Philadelphia Code...

BILL 050007 - An Ordinance amending Chapter 19-1200 of The Philadelphia Code...

BILL 050008 - An Ordinance amending Section 19-2604 of The Philadelphia Code...

PRESENT:

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

I N D E X

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COUNCIL PRESIDENT VERNA: Good morning, everyone. This is the public hearing of the Committee of the Whole regarding Bill Nos. 040767, 050007, 050008, and 040789.

I would ask Mr. McPherson to please read the title of the bill.

MR. MCPHERSON: Bill NO. 040767, an ordinance amending Section 19-2604 of the Philadelphia Code, relating to tax rates, credits and alternative tax computation for the business privilege tax, by reducing certain tax rates; all under certain terms and conditions.

Bill No. 050007, an ordinance amending Chapter 19-2100 of the Philadelphia Code, entitled "Parking Tax," by establishing a rate of taxation of parking transactions for Fiscal Year 2006 and thereafter and making such rate contingent on certain decreases in business privilege tax rates.

Bill No. 050008, an ordinance amending Section 19-2604 relating to tax rates, credits and alternative tax computation by reducing certain tax rates and making such reductions contingent on an increase in the parking tax.

Bill No. 040789, amending Chapter 19-2600 of the Philadelphia code, entitled "Business Privilege Taxes," to provide for an exemption from the tax on gross receipts for certain new businesses, under certain terms and conditions.

COUNCIL PRESIDENT VERNA: Ms. Wilkerson.

MS. WILKERSON: Good morning. I am Joyce Wilkerson, Chief of Staff to Mayor John Street. The testimony is going to be given by Dianne Reed, the Budget Director; and Sean McNeeley, Policy Director for the Administration.

MS. REED: Good morning, Council President Verna and Members of Council. I'm Dianne Reed, Budget Director of City of Philadelphia. Thank you for the opportunity to present testimony on Fiscal Year '06 tax measures that are currently before Council. I would like to provide you with a brief written testimony before we discuss the attached presentation Power Point, which is Exhibit 1.

The Administration remains committed to responsible tax reduction and reform, despite the City's ongoing challenges and stresses. The City finish Fiscal '04 with a negative fund balance of $48.6 million, the negative year-end General Fund balance in 12 years. In order to offset the structural problems faced by the City, including projected growth in benefit costs that exceeds the projected growth in tax revenue -- pension costs alone are 800 million higher in the proposed '06-'10 plan than in the '02-'06 plan -- the Administration has undertaken numerous initiatives and across-the-board budgets reductions to provide balanced budgets while maintaining the City's tax reduction program. The Administration is drastically reducing the workforce through a variety of means, including layoffs, curtailing the purchase of services by non-reimbursed departments, and pursuing a series of management and consolidation initiatives to maintain service and reduce staffing levels.

These steps are described more fully in the introduction to the Five-Year Plan.

In spite of these challenges, by the end of Fiscal '05, the City will have returned 1.1 billion to taxpayers through 10 consecutive years of tax reductions, including over 200 million this fiscal year. No other state or local government in America can lay claim to this record of sustained annual tax reduction. The City's resident wage tax rate is almost 13 percent lower today than it was when the reduction program began in 1995, and the non-resident portion is over 11 percent lower. The gross receipts portion of the business privilege tax is over 40 percent lower today than it was when the program started in 1995, and by next year it will have been cut in half if the Administration's proposals are implemented.

Implementing the tax reductions and credits already legislated and planned for in the next 10 years will be even more difficult when 2.2 billion of new tax relieve is scheduled to take effect between Fiscal Year

'06 and '15, in addition to 2.1 billion in future savings from the rate reductions that were already enacted between Fiscal Year '96 and this year. This projection assumes the continuation of the annual reductions in the gross receipts portion of the business privilege tax as well as the annual wage tax reductions passed in Bill No. 040607, and the low income wage tax credits passed in Bill No. 040397, but it is does not include the value of the wage tax relief that will be provided when the benefits of state-wide tax reform take effect. The impact of the wage tax reductions and credits enacted into law increases sharply beginning in Fiscal Year "10 when the size of the wage tax reductions increases and the phase-in of the tax credits begins. The proposed Fiscal Year '06 to '10 Five-Year Plan estimates that the tax revenues will increase by only 7 million in Fiscal '10 due to these impacts compared to annual projected tax revenue increases of over 50 million per year in '07 through '09.

The Administration strongly believes

that faced with accelerated levels of tax reductions and credits that could lead to flat or declining general tax revenues in the next mayoral administration, any tax reductions beyond those already planned should be offset by a specific funding source. At the same time, further affordable adjustments to business taxes could improve Philadelphia's economic outlook. Accordingly, the Administration proposes a gross receipts tax base for 06. The Administration proposes an expanded gross receipts rate reduction in '06 to be funded by a budget neutral increase in the parking tax rate. Bill No. 050008 would reduce the gross receipts rate in '06 from 1.9 mills to 1.5 mills, a 21 percent reduction. This reduction, which is more than twice as the one previously scheduled, would provide $71 million of business tax relief over the life of the plan, in addition to the 109 million in relief already planned through the continuation of the existing BPT reduction program. If the accelerated '06 reduction is followed with existing annual schedule of

0.125 mill in later years, the bill would place the City on pace to eliminate the gross receipts portion of the BPT by 2018.

The BPT tax rate reduction proposed in Bill No. 050008 is contingent on the passage of Bill No. 050007, which would increase the parking tax rate from 15 percent to 20 percent, generating 13 million in net additional parking tax revenue. These two bills create a budge neutral tax shift that is consistent with a report of the Tax Reform Commission which suggested that an increase in the parking tax to 20 percent would be one way to change Philadelphia's tax mix to fund wage and business tax reform. The Commission's report noted that Philadelphia's parking tax rate has been as high as 20 percent in the past, and at this rate would still be lower than the City of Pittsburgh rate which is currently 50 percent. The report also noted that "When compared to other Philadelphia taxes, the economic burden created by the parking tax is relatively small." The expanded gross receipt rate reduction proposed in Bill No. 050008 is the full amount of tax relief that can be funded from this suggested increase in the parking tax rate.

The Administration believes that the proposed shift from the BPT to the parking tax represents sound fiscally responsible tax policy. Research has shown that the gross receipts portion of the BPT is an impediment to economic growth in Philadelphia. Accelerating the proposed reduction in this tax is an investment in economic development. If done in a way that does not cause deficits or service reductions that would undermine the value of the tax reductions. By contrast, there is little evidence that the parking tax is a major deterrent to business location in the City. Further, economists believe taxes on activities with social costs, in this case road maintenance, traffic congestion and pollution, are efficient because they can generate public revenue that offsets the social cost of that would otherwise go unpaid by the consumer. Increasing the City parking tax could encourage greater use of public transportation, reduce road congestion, improve air quality in enhanced SEPTA's revenue base over the long term, and we are all aware that SEPTA needs all the help it can get at the moment. In short, the proposed shift from the BPT to the parking tax should result in significant economic benefits to Philadelphia with no net impact on City revenues or services or the City's fiscal stability.

Bill 040767 would enact 12 years of rate reductions in both the gross receipts and the net income portions of the BPT with a goal of eliminating the BPT by 2017. The bill would layer annual reductions on top of those already scheduled. The bill is projected to cost 207 million in foregone revenues from '06 to '10, compared to the proposed plan which would create a revised Fiscal Year '10 fund balance projection of a negative 142 million that would have to be offset by service cuts or workforce reductions in order to present PICA with a balanced plan. This cost projection reflects only the bills proposed reductions for the net income portion of the tax, as the proposed plan assumes lower gross receipts rates than those contained in bill 040767 through Fiscal '10, contingent on passage of Bills No. 050007 and 050008. Bill 040767 is projected to produce 76.7 million in revenue loss in Fiscal '10 which is greater than the combined budgets of the free library and Recreation Department in that year.

As with the tax reductions and credits already enacted by City Council, the cost of Bill 040767 would escalate in future years. The bill is projected to cost 713 million from Fiscal '11 through '15. The combination of Bill 040767 and existing tax ordinances projected to cause annual declines in tax revenue beginning in Fiscal '11. Long-term forecast of this type is speculative, but if the Fiscal '10 overall tax base growth rate of 3.5 percent is carried forward into future years, the annual growth and the base is projected to be smaller than the combined impact of wage and BPT tax rate reductions and the phase in of the low-income wage tax credits. This would cause tax revenue to fall each year. The next mayoral administration would then have almost no ability to fund increases in the cost of wages, health insurance, or pension benefits for its workers, let alone expand services, respond to emergencies or meet inflationary cost increases for services and materials. Bill 040767 would almost certainly cause drastic tangible service reductions over the Five-Year Plan period and would significantly impair the next mayor's ability to operate the government. The Administration cannot support this bill.

Bill NO. 040789 would effectively exempt businesses from paying the gross receipts portion of the BPT during their first three years of operations in Philadelphia. The bill may not be legal if the Commonwealth's uniformity clause, which states that "All taxes shall be uniform, upon the same class of subjects within the territorial limits of the authority levying the tax and shall be levied and collected under general laws." Some exceptions to this rule exist at the state and local level under varying authority, but it is not clear this is the type of exception that would be legal. Furthermore, the definition of new businesses used in the bill is unclear and could lead to additional legal uncertainty as well as the possibility that existing businesses would manipulate their legal and organizational structures to qualify for the bill's exemption. Even assuming that Bill 040789 were legal, the Administration could not support it due to its cost which is projected to reach 12.7 million per year when fully phased in and 49.9 million over the life of the '06 to '10 plan. Passage of the bill is projected to cause negative fund balances in '07 and '08. The Administration believes that any tax reductions beyond those already planned should be offset by other funding, but furthermore would prefer allocate scares tax reduction dollars toward across-the-board relief to all businesses which seems to be the fairest and most economically productive use of those dollars.

MS. WILKERSON: We've prepared a power point presentation. The numbers begin to converge at some point, and Mr. McNeeley is going to step through a Power Point presentation that provides graphic explanation of some of the risks that the City faces, and that's attached to the back of the testimony.

MR. MCNEELEY: Good morning. Sean McNeeley.

As you know, the City finished FY '04 with the first negative fund balance in 12 years. The first page of the presentation projects the fund balance through the life of this proposed FY '06 to '10 plan. In FY '06, FY'07 and FY '08, the fund balance is projected to be less than 1 percent of expenditures and then our anticipated PGW repayment kicks in in FY '09.

Passage of Bill No. 040767 is projected to result in negative year-end fund balances in each year beginning in FY '07 and would require corrective action in order to present a balanced plan.

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The next few pages give some context for what we're doing other areas of the budget. Page 2 covers deficit cutting actions. The Administration used a combination of across-the-board budget reductions targeted initiatives, a hiring freeze since November 2001, position eliminations and layoffs to offset recurring operating deficit projections. These across-the-board reductions were applied in a number of the past few years. It's identified there.

In order to reach the FY '06 target by July 1st, the City was forced to implement layoffs and positional eliminations. The initiatives we've pursuing over the last few Five-Year Plans are all identified in the introduction of the Five-Year Plan.

The City's workforce is currently at 23,297 general fund positions. That's the lowest in decades. The FY '06 budgeted level is even lower at 22,653. That represents an 11 percent reduction from the '03 budget and an 8 percent reduction from FY 2000 when the

Administration took office. The increase between 2000 and 2003 is mainly due to DHS and prisons staffing increases.

The chart at the bottom shows that the City has cut the size of the workforce in proportion to the City's population on a per capita basis. The City's workforce in the FY '06 budget will be at about the same level as it was in FY '65, higher than it was in FY '55, but if you control for mandated county functions like courts, DHS and prisons, it's roughly the same as it was in FY '55 and lower than any point since then.

About 32 percent of the City's FY '06 budget is for purchase of services. That includes a lot of different types of things. Payments for the care of individuals, adoption subsidies, placement for juveniles, and other reimbursable social service expenditures account for more than half of that total. Fixed debt payments and the mandated SEPTA subsidy account for another 12 percent, and then basic operating expenditures and unavoidable expenditures account for another

13 percent. So there's relatively little that we would consider to be discretionary in that purchase of services budget. Nevertheless, purchase of services budgets for most departments have been cut or held constant starting in FY '03, and in the Five-Year Plan they are projected to remain flat over the plan period. The.

Chart shows what happens if you adjust the City's actual purchase of service obligations over the past few years for inflation, and you see that since FY '02 those obligations have dropped in real terms. They've also dropped from FY '02 to FY '04 even without controlling for inflation.

In addition to what we're doing on the expenditure side, with City Council's help and the help of the General Assembly, the City's been pursuing a number of non-tax-related revenue enhancement initiatives. Those are expected to generate over $210 million in additional revenue to balance the plan that was presented to you. And those initiatives are detailed, and we covered a lot of those Monday.

Page 6 gives you an overview of where we have been with taxes, where we are and where we're going. It's a lot of numbers on the page, but basically the plan assumes up to 4 percent gross growth in wage and business privilege tax bases and about 2 and a half percent inflationary growth in all the other taxes. Once you adjust for tax reductions, net tax growth is projected to be between half a percent and 2.7 percent annually.

Stepping through the table a little bit, you can see that in FY '02 overall tax collections only increased by half a percent, and that's even after adjusting for some one-time revenue received in '01. The wage tax grew very slowly in '02, and the BPT and sales tax fell. In FY '03 the wage tax again was pretty flat. It was flat after the effect of the tax reductions, and once again BPT and sales tax fell. Overall, the City's tax revenue fell in FY '03 but largely as a result of the millage shift to the School District.

In FY '04, we started to experience

strong recovery. Wage taxes grew by 5 percent. The wage tax base grew by 5 percent. The BPT came back strong. And as you know, the transfer tax went through the roof. Then going forward, you can just see the assumptions for each tax.

Page 7 just gives you the table showing where we're going with the wage tax, what's already in law, and what those reductions are compared to when we started the tax reduction program in 1996. In addition, if when we get the state-wide tax relief for gaming, that would push the resident wage tax rate below 4 percent. So that would be in addition to what you see in the table there..

On the BPT side, the proposed plan assumes passage of Bill Nos. 050007 and 050008, which is a budget neutral tax shift, that increases the parking tax in return for an accelerated reduction in the gross receipts portion of the business privilege tax. The proposed shift would result in 21 percent reduction in the first year, providing about $13 million in business tax relief and would put the City on a permanently lower track in its gross receipts tax reduction plan until by FY '18 it would be completely eliminated.

As we commented in the testimony, the tax cuts and tax credits that are already enacted are projected to escalate sharply and impact beginning in FY '10. If Bill No. 040767 were passed, that effect would be even more dramatic.

Page 9 shows the annual impact of tax reductions in each year as they're passed going back to '96. And you can see that between FY '96 and this year, the impact of the tax reductions has been within a range of 12 to 30 million dollars in each year. In FY '06, that includes the shift to the parking tax. And then beginning in FY '07 you have higher impacts than any year tax of the ten-year tax reduction program. Starting in FY '10, you really double the size of the impact in that year, and then it continues to escalate after that. It increases sharply in FY '10 because the wage tax rate reductions increase in size beginning in FY '10 and also the low-income wage tax credits that were passed begin to be phased in in FY '10.

The City's tax base in projected to grow by an annual average about $62 million, and that's represented by the dotted line on the chart. When the impact of the tax cuts is greater than that line, then that means the City would lose tax revenue from year to year. That's illustrated a little more on Page 10. You see that in FY '06 tax revenue is projected to be flat, and that's mainly we assume that the transfer tax is going to slow down. Between FY '07 and FY 'O9, the plan assumes about $50 million with tax revenue growth each year. In FY '10, the plan assumes only $7 million in tax revenue growth because of the impact of wage tax reductions and the low-income wage tax credits. If Bill No. 040767 were passed, we project that we would see annual losses in tax revenue beginning in FY '10. And for years after FY '10, we're just carrying out the same basic growth assumption that we have in the Five-Year Plan. So not only do the tax revenue start to show a loss, but you see the impact of the tax cuts increasing on the line.

The City's tax reduction program was begun 10 years ago on the premise that moderate tax reductions each year could be incorporated into a balanced City budget that maintains City service levels by generating efficiencies and taking advantage of economic growth. For Mayor Rendell and Council President Street adopted this premise after consultation with Professor Inman of the Wharton School of Business who's performed numerous studies and models for the City's finances and tax structure dating back to 1987.

As I mentioned on the other chart, the annual impact of the City's tax reduction program has averaged about $20 million per year to date, and that's roughly at a level that could be incorporated year to year through the kinds of things I just mentioned: Efficiencies, cost containment, economic growth. The reductions that are already enacted for future years and that could potentially be enacted if Bill 040767 is passed are far beyond that level of manageable reductions with an annual impact as much as 6 times higher than the previous average. The potential FY '10 impact of $76 million when included Bill 040767 is greater than the budget of 40 out of the 47 City operating departments.

To touch on supply side a little bit, Professor Inman periodically does a report on taxes and the economic future of Philadelphia. On his 2004 report estimates that supply side improvements in the economy return only a fraction of the lost revenue from tax cuts to the City. And the quote there is, "Lowered City tax rates will mean less City revenues. Philadelphia is not in the range of tax rate reductions where lower rates so stimulate business activity and property values that City revenues actually rise following the cut rates." And he was referring to last year plan.

The plan's proposed reductions in the City's gross receipts tax rates in resident and non-resident tax rates will stimulate additional business activity and new City jobs, but the resulting increases in tax base will lead to additional revenues which are likely to offset only 15 to 20 percent of the projected decline in revenues over the life of the plan. Not only would we not get part of the revenue that we cut through the reduction, but Professor Inman also noted that if you have to run deficits or cut services as a result of tax cuts, that can undo the initial economic benefits of the original tax rate reductions.

So in other words, if tax cuts are so large they force reductions in City services, then lasting increases in business activity and jobs will not materialize.

If the supply side effect is proportional at, say, 15 to 20 percent, then larger tax cuts mean larger revenue losses for the City. Assuming the 20 percent supply side effect, then $1,000 tax cut causes the City to collect $800 less revenue. A $2,000 tax cut causes the City to collect $1,600 less revenue. So the larger the tax cut, the less to the revenue.

The Administration believes that the tax growth assumptions in the proposed plan are already pretty aggressive. We also believe that any supply side effect in the nine years of tax reductions already made is reflected in trends in the City's tax base growth, and we use those trends as a basis for our future projections.

The tax growth projections in the proposed plan are on average the highest assumed in any of the City's 14 plans and exceed inflation estimates, as shown in the chart. The chart has the Five-Year Plan wage tax growth estimates from different points in time, the first Five-Year Plan and then roughly each five years after that. You can see that the current growth rates of 3 and a half percent escalating to 4 percent are higher than any other plans and much higher than Congressional Budget Office's long-term inflation forecast at 2.2 percent. So the difference being 2.2 percent and 4 percent means that we have to either generate additional employment or generate 2 percent per year growth in real wages.

I would like to conclude with a summary of each bill before us today. Bill No. 050007 increases the parking tax rate, and you the '06 impact as generating $13 million in net revenue in the FY '06 to FY '10 impact. That bill is assumed in plan.

O50008 reduces the gross receipts portion of the business privilege tax contingent on the passage of the previous bill but, again, those two bills roughly offset one another and they're both assumed in the plan.

Bill No. 040767, which would reduce the net income portion and the gross receipts portion of the BPT is projected to cost $11 million in the first year and roughly $207 million over the plan. It's not assumed in the plan.

And Bill No. 040789, which exempt businesses from paying the gross receipts portion in their first three years, projected to cost about $4 million in the first year and then escalate each year after that to the full annual cost of $12 million or a Five-Year Plan cost at $50 million.

That concludes our testimony.

COUNCIL PRESIDENT VERNA: Thank you all very much.

At this time the Chair recognizes Councilman Goode.

COUNCILMAN GOODE: Thank you, Madam President.

COUNCIL PRESIDENT VERNA: I'm sorry. Councilman, before you start, there are a number of Councilmembers that want to recognized, so for the first go-around each Councilmember will have five minutes.

COUNCILMAN GOODE: Thank you.

Good morning, Ms. Wilkerson. A couple days ago on Monday, I addressed the tax reform policy shift by the Administration from a single sales factor apportionment to a gross receipts tax cut in Fiscal Year '06 and asked what accounted for that shift in policy. Can you better address that today?

MS. WILKERSON: The Administration

last year proposed the single factor shift and proposed to offset it with the parking tax that was not -- that proposal was not accepted by City Council. And so we did not -- despite the fact that it had been recommended by the Tax Reform Commission. The Administration has long advocated support for a reduction on the gross receipts tax. We believe that it is particularly onerous and discourages the creation of new businesses, and this year we decided to take another stab at that.

We understand that you have long supported the reduction in the gross receipts tax. I think your position has been shared by a number of other people in this Council and thought that not only did it make good sense for the City, not only would it be a stimulus for business growth, but it also might enjoy political support that at the end of the day it takes an order to make ha happen.

COUNCILMAN GOODE: And I support the bill and won't change my mind on the bill and believe that we should target gross receipts first and then look at net income, but I'm not sure that you necessarily changed your policy position because of me. So my question is, why did you move from single sales apportionment to gross receipts? And is one better than the other? Is that the Administration's position that one is better than the other?

MS. WILKERSON: Our position is the gross receipts tax is probably the most onerous in limiting job growth, even more so the wage tax or some of the other taxes. In 1903 or 4 -- I forget now which it was -- we had proposed slowing the rate of reduction of the wage tax in light of the City's overall financial condition and had proposed focussing instead on a more aggressive reduction in the gross receipts tax. That did not happen, and so was born some of the tax reduction discussion.

COUNCILMAN GOODE: Let me ask another question.

Did you get any specific tax reform policy message out of the Economic Development Summit? What did the Administration the draw from the Summit in terms of tax reform policy?

MS. WILKERSON: I'm not prepared to comment on the specifics. I think there was expressed substantial support for tax reduction. I think the Summit participants thought that the City's overall taxes were a major deterrent to growth.

COUNCILMAN GOODE: But do you believe there were any specific recommendations that came out of the Summit related to tax reform?

MS. WILKERSON: I can't -- I don't have that right at --

COUNCILMAN GOODE: Can we have someone comment on that today?

MS. WILKERSON: I'll get somebody to comment before the end of the day.

COUNCILMAN GOODE: Thank you.

Thank you, Madam President.

COUNCIL PRESIDENT VERNA: You're welcome.

The Chair recognizes Councilman Nutter.

COUNCILMAN NUTTER: Thank you, Madam

Chair.

Madam Chief of Staff, I need to go back over a statement that you made in a response to a question raised by Councilman Goode. I thought I heard -- and if I'm incorrect, you'll correct it. I thought I heard you state that in last year's discussion about a variety of tax measures that the Council did not pass the single factor apportionment bill? Did I hear you say that?

MS. WILKERSON: I misspoke, because that does not require Council passage. But the Administration proposed coupling the move to single factor apportionment with the parking tax. The revenue from the parking tax was necessary in order to offset the loss. As that conversation evolved last year --

COUNCILMAN NUTTER: And we passed the parking tax.

MS. WILKERSON: It was tied to the wage -- the reduction BPT and so it wasn't available to offset the loss revenue from moving to single factor apportionment. The Administration had the right to do that --

COUNCILMAN NUTTER: Well, wasn't that because the Mayor vetoed the BPT bill? That did happen, right?

MS. WILKERSON: The Mayor vetoed the BPT in part because with the bills that were on track, the City was moving towards a loss of revenue that we didn't feel could be sustained and so we did end up vetoing that, yes.

COUNCILMAN NUTTER: Which is why the parking tax revenues weren't available to you?

MS. WILKERSON: That revenue wasn't available nor were the revenues lost from the more aggressive reduction in the BPT.

COUNCILMAN NUTTER: Let me ask a couple of -- what I had planned to ask.

Two things for the record. Is it correct that the Mayor signed Bill 020092? That would be the wage tax bill from 1992.

MS. WILKERSON: Yes.

COUNCILMAN NUTTER: The Mayor signed that bill.

MS. WILKERSON: Yes.

COUNCILMAN NUTTER: And is it

correct that the Mayor signed bill 040607?

MS. WILKERSON: If you could give me the title.

COUNCILMAN NUTTER: That would be the wage tax bill from last summer with the 10-year rate reduction.

MS. WILKERSON: We did not veto them.

COUNCILMAN NUTTER: No, I believe the Mayor signed it.

MS. WILKERSON: Then he signed them.

COUNCILMAN NUTTER: So the Mayor signed both the wage tax bills which are often the topic of discussion about wage tax reductions or proposals by this City Council. The Mayor signed both of those bills, correct?

MS. WILKERSON: Yes. I'll take your word for it, yes.

COUNCILMAN NUTTER: I'm sorry?

MS. WILKERSON: Yes.

COUNCILMAN NUTTER: What's the unemployment rate in Philadelphia?

MS. WILKERSON: Just a minute, we'll get that.

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MR. MCNEELEY: For November, it was 7.2 percent.

COUNCILMAN NUTTER: I'm sorry?

MR. MCNEELEY: In November, it was 7.2 percent.

COUNCILMAN NUTTER: And do you have any demographic breakdowns of that?

MR. MCNEELEY: Not with me, no.

COUNCILMAN NUTTER: I'm sorry?

MR. MCNEELEY: Not with me, no.

COUNCILMAN NUTTER: What's the national unemployment rate?

MR. MCNEELEY: I don't have that with me, but I would guess somewhere in the range of 5.

COUNCILMAN NUTTER: Five even, 5.1, 5.2?

MR. MCNEELEY: It's a guess. I'd have to get back to you.

COUNCILMAN NUTTER: It's 5.2, right?

MR. MCNEELEY: Could be.

I would add that 7.2 percent is down from 8.2 which we hit in 2003, 2002.

COUNCILMAN NUTTER: And I know --

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COUNCIL PRESIDENT VERNA: I'm sorry, Councilman.

Would you mind repeating? Because I don't even know if the stenographer heard you.

MR. MCNEELEY: No problem. 7.2. percent for November is down from 8.2 percent that we reached in a couple points in 2002 and 2003.

COUNCILMAN NUTTER: And according to the Department of Labor, Bureau of Labor statistics, how many jobs did we lose last year?

MS. REED: That's an interesting question because there are several different BLS sources of data. The one that the City usually uses is current employment statistics which shows the City losing about 10,000 jobs. There's also another source which some other people use, the Quarterly Census of Employment and Wages which actually shows a much higher loss. But part of that is what's called a non-economic loss which has to do with reclassifying --

COUNCILMAN NUTTER: Ms. Reed, do me

a big favor. Just move it over.

MS. REED: Non-economic reasons which have to do with classifying businesses in the wrong location. So it was quite a large adjustment there. Now, all of these data that we have --

COUNCILMAN NUTTER: Would you say it's fair to indicate that it's somewhere between either the 10,000 or 10,600 that was reported about a week or so ago?

MS. REED: No, actually the fourth quarter CES data shows that the loss may only be about 3100 jobs. The thing about all of the numbers for last year is at this point they are preliminary, and it's really the matter of the rate of loss that's more important than the absolute numbers, painful though every single job is, of course, because we actually are improving with respect to this kind of a measure. We were losing in the 4 percent range in the '80s, and we're now down to about 1.2 percent. And, you know, we are experiencing wage tax growth too, so those are just a few perspectives on that.

COUNCILMAN NUTTER: We're experiencing wage tax growth?

MS. REED: Yes.

COUNCILMAN NUTTER: Even as we cut the wage tax?

MR. MCNEELEY: In FY '04, the wage tax base grew by 5 percent. And after the effect of the tax collections grew by about 4 percent.

COUNCILMAN NUTTER: Okay.

MS. WILKERSON: We're currently reviewing the numbers from both sources and trying to reconcile it with what's going on with the wage tax. We also -- another thing that factors in, one of the segments that's experienced the largest decline is actually government. And these numbers reflect the fact that the City of Philadelphia will have lost over 2,000 jobs. And so we contribute to the loss in employment that we're talking about.

COUNCILMAN NUTTER: I think the bell rang, so I'll come back.

COUNCIL PRESIDENT VERNA: Yes, it

did.

COUNCILMAN NUTTER: But it is interesting the hear that the tax receipts are up.

COUNCIL PRESIDENT VERNA: Thank you.

COUNCILMAN NUTTER: Thank you.

COUNCIL PRESIDENT VERNA: Ms. Wilkerson, I guess we can give many reasons why we're in the financial position we're in; however, it's hardly if ever mentioned that the State mandates programs, however, many of those programs are never funded by the State. Do we have any indication as to how much it costs for these mandated programs that are not funded?

MS. WILKERSON: I don't have -- I can get an aggregate cost for all the programs. We know that there are any number of expenses, for example, the whole court system. If we had the more than hundred million dollars annually that we spend for the courts that the State Supreme Court has opined is not our responsibility, the tax reductions we're talking about would not be an issue.

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COUNCIL PRESIDENT VERNA: I think the Supreme Court ruled on that at least six years ago.

MS. WILKERSON: More than 15 years ago.

COUNCIL PRESIDENT VERNA: Oh, my. Time goes by when you're having fun.

MS. WILKERSON: They remain real constraints on City's ability to reduce its cost, but we will get an aggregated number.

COUNCIL PRESIDENT VERNA: What, if anything, are we doing to try to get these state revenues?

MS. WILKERSON: The Administration, as I testified on Monday, is pursuing either the revenue or turnover of the responsibility for the state roads. As the conversation on Monday made clear, although the legal obligation is clear, actually getting the State to assume the responsibility is a different matter. We are working with the State trying to get the State to use its federal dollars to assume costs for the prisons. So we're pushing these initiatives.

Some of it has a greater likelihood of happening. We don't have the federal judiciary cost on the front about burner. It's our assessment that if we get that, we'll loss other revenue, other discretionary revenue that might come to the City.

We also are working aggressively to try to manage the court costs. This year, the Administration's proposed a Five-Year Plan that reduces the first judicial District's costs by the same percentage that the rest of City government is being asked to absorb. We're also working -- just yesterday, I heard about an unfunded mandate for the computer systems for the courts. We'll be pushing back on something like that so we're not continuously burdened with these expenses. But we have things that have been legislative with respect to benefits for City workers that end up being cost to the City. And we have advocated aggressively against those, but we're not always successful. And they are the kinds of initiatives that further limit our ability to use resources in ways that might stimulate the growth of our economy.

COUNCIL PRESIDENT VERNA: I think it would be very interesting to know how much it's costing the City for these mandated unfunded programs.

MS. WILKERSON: The Five-Year Plan actually has a discussion of it. In the fiscal stability portion of the plan it identifies those kinds of burdens that the City has that are unusual for the City in comparison to other counties but also in comparison to the other jurisdictions in the country. We're frequently compared to other major cities, but those major cities aren't also counties and don't have all the burdens that we have that we have to fund out of our tax base.

COUNCIL PRESIDENT VERNA: And you mentioned about the Supreme Court's ruling regarding the courts. I believe, and correct if I'm wrong, my memory is that approximately six employees were put on the state budget; is that true? That was some time ago.

MR. MCNEELEY: I don't know the

exact number. This is before my time. But I think they proceeded with a phase 1 of a several phase plan.

COUNCIL PRESIDENT VERNA: And phase 2 never arrived.

MR. MCNEELEY: Right.

In FY 2000, which is also before my time, we zeroed out the First Judicial District out of the budget and I think we passed a budget that didn't have them in it and then they just took up us to court, and that didn't work.

COUNCIL PRESIDENT VERNA: Okay.

Councilwoman Tasco.

COUNCILWOMAN TASCO: Good morning. On Page 6 of your Power Point, you show in Fiscal Year '07 and out, there's an increase in the wage tax collections, and it seems to be that way -- first, let's go to '05. What do you attribute the increase of collections in the various taxes in '05.

MR. MCNEELEY: Well, first of all, trends through the time we were preparing, so our actual collections year to date as of

November, December. And then second of all, the reason that those collections have been at those levels, we think, is a strengthening economy.

COUNCILWOMAN TASCO: I can't hear you.

MR. MCNEELEY: We think that the reason for those increased collections is a strengthening economy and our natural participation in the strengthening of that economy.

COUNCILWOMAN TASCO: So these trends will have an impact on the growth of all of these collections throughout Fiscal Year 10?

MR. MCNEELEY: Yes. I think we have aggressive assumptions for the wage and business privilege taxes going forward that we think reflects all the investments we're making, both in the investments in tax reductions, the investments in NTI, the investments in our schools, so we think that that combination of things along with assumes stability in the national economy leads to those projections.

COUNCILWOMAN TASCO: Okay. Thank you.

COUNCILMAN NUTTER: Point of order.

COUNCIL PRESIDENT VERNA: The Chair recognizes Councilman Nutter for a point of order.

COUNCILMAN NUTTER: This is Mr. McNeeley?

MR. MCNEELEY: Yes.

COUNCILMAN NUTTER: You were over on Monday?

MR. MCNEELEY: Yes.

COUNCILMAN NUTTER: I think you have surpassed now your mentor in the ability to lay things out.

You made a comment in response to Councilwoman Tasco that part of the growth was attributable to the natural order of participation in the economic growth or something. Could you say that again?

MR. MCNEELEY: Yes. What I meant is that as the national economy improves and grows, we gain some benefit from that. And that happens year to year. As the national economy declines as it did in '01 and '02, then we suffer from that.

COUNCILMAN NUTTER: So we're just kind of riding the wave of whatever happens?

MR. MCNEELEY: That comprises the greatest factor in our local economic growth or decline, but there are also other long-term structural issues and there are things that we're doing to change that picture incrementally and change how we participate in the national trends.

COUNCILMAN NUTTER: That would be the universal week, right?

MR. MCNEELEY: Yes.

COUNCIL PRESIDENT VERNA: Councilman Goode has a point of information, Councilman.

COUNCILMAN NUTTER: I'm done.

COUNCIL PRESIDENT VERNA: Councilman Goode.

COUNCILMAN GOODE: Thank you, Madam President.

Mr. McNeeley, you testified in response to an earlier question by Councilman Nutter without giving specifically updated unemployment data to the fact that the City is performing below the rate of the national economy. The City's unemployment rate has persistently been two points lower than the regional and national unemployment rates. So we're not just riding the wave of the national economy, and it's not just natural participation in the national economy. And in terms of growth, our stagnant revenue growth and our stagnant economic growth is because of a local economic environment. Is that not true?

MR. MCNEELEY: What I said is that as the national economy changes, we reflect that change. We may not get the full benefit, we may not get the full rate of return --

COUNCILMAN GOODE: And the question is, it's not natural participation in the national economy if you don't get the full rate of return in terms of what's happening in the national economy. And the question is, what contributes to the fact that our unemployment rate is persistently two points lower than the regional and national level?

And what contributes to the particular fact that our local economic performance is not as good?

MR. MCNEELEY: I think that there are a number of long-term trends and demographics.

COUNCILMAN GOODE: Be specific about those long-term trends and demographics that lead to the fact that our local economy is not performing at the same rate as the regional and national economy. You can't just tie us to the national economy because that is not statistically accurate.

MR. MCNEELEY: You can -- in Page 10 of the Five-Year Plan, we show that we are becoming much more like the national economy over time. If you track from 1970 all the way up through last year, we've gotten much more consistent.

COUNCILMAN GOODE: And that's probably because of the improvement of the regional economy and whatever spillover effect it has on local economy. I'm asking you to account for still what makes us locally perform under the region? Let's not even deal with the national economy. Why are we performing -- why do we have lower performance economically than the region's?

MR. MCNEELEY: I think those are issues that are faced by many older, big cities. I think it has to do with population loss.

COUNCILMAN GOODE: I'm talking about this City and this region.

MR. MCNEELEY: I think that it has to do with trends over time in terms of people moving out of the City, moving to the suburbs, moving where they can economize on land, buy greater size of the house than the land they live on, and just sort of those long-term trends that have impacted all cities in America.

COUNCILMAN GOODE: It's not all cities in America because the City's unemployment rate and job loss is not comparable to any place else other than probably Detroit. So it's not all cities in America.

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MR. MCNEELEY: I don't have the numbers here. I think that it is typical for central cities to have a higher unemployment rate than their surrounding suburbs.

COUNCILMAN GOODE: But is Philadelphia's higher than any place else; and why is that? Why do we have more job loss? Why do we have a higher unemployment rate? It's not that places haven't suffered losses, but we've suffered greater losses. Why is that?

MS. WILKERSON: I think part of it -- we acknowledge that part of it is our tax. The City does suffer disproportionately because of our tax structure. The Administration has acknowledged that all along. The question is how do you begin correcting that. And we have supported -- I mean, there have been fights along the way, but have supported the initiative to reduce the taxes in order to make the City more competitive. The question is how far can we go and how far can we go in light of all the other constraints. Part of the reason is that we can't go much further without doing it through shifts is because of all the other burdens that we have that the other cities don't have.

COUNCILMAN GOODE: But you would agree --

MS. WILKERSON: But I agree that -- and I don't Mr. McNeeley disagrees, that taxes have something to do with that.

COUNCILMAN GOODE: Has a big part to do it. You would agree that it's not fair to say that Philadelphia goes as the national goes because the truth of the matter is is that Philadelphia is not even performing at the regional level.

MS. WILKERSON: We go more slowly. I think it's true to say that we move in that direction but we don't move as aggressively. So when the national economy goes up, we don't benefit to the extent that the rest of the nation does. But I think what we see is that we move in the same direction.

COUNCILMAN GOODE: I'm simply just asking you to pinpoint that reason.

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MS. WILKERSON: And I think, once again, it's in part because of the taxes.

COUNCILMAN GOODE: Thank you.

Thank you, Madam President.

COUNCIL PRESIDENT VERNA: You're welcome.

COUNCILWOMAN TASCO: Based on the discussion, if you have an increase in your wage taxes, on what do you base that growth. If the economy does well, people increase -- they get raises and it doesn't have anything to do with increase of the decline and the jobs moving out of the City. You expect more jobs to move into the City.

MR. MCNEELEY: The Five-Year Plan has, as I said, 4 percent growth in the wage tax base. We kind of put all that in the category of increases in salaries and wages in our plan assumes that employment stays the same, doesn't assume a net increase in jobs and it doesn't assume a net decrease in jobs. So we assume we kind of stay flat and people get 4 percent average increases in their wages. There can be differences between those two, and we think we'll still end up around 4 percent.

COUNCILWOMAN TASCO: Okay, let me ge the transfer realty tax. You have a collection of 165 million. What's the cause for the decline in the out years except for '09?

MS. REED: We have reset the realty transfer tax in '06 to 140 million because the receipts that we expect to get this year, which is about 165 million, is a historical high level. The '04 level was more in the 140 range, so we thought it would be appropriate to reset our expectations at a level that has some historical basis and is not too high because, of course, there would be spending authorization which would go along with a higher level of estimate, and we don't want to overshoot.

COUNCILWOMAN TASCO: And what accounted for the 165 growth in the real estate transfer tax?

MS. REED: Well, we have been thinking about that quite a bit. It could be the tax abatement program. There has been an enormous number of new high cost units added into the City because of that. We also have had an absolutely fabulous effect of the Neighborhood Transformation Initiative in terms of raising property values all over the City. Interest rates have improved. There are some materials that were prepared by the Office of Housing and Neighborhood Transformation which show that the areas where NTI has made investments have improved their values in just in three years.

MS. WILKERSON: I think one of the reasons, though, that we taper off the real estate transfer tax is the interest rates aren't going to stay where they are forever. Some of the numbers trend rather slowly. This is one that can drop precipitously. So rather than go to the outer limits in our revenue projections, we've chosen to be more conservative, recognizing the fact that this is extremely sensitive to what's happening with the interest rates and that we could use lose this extra revenue quickly.

COUNCILWOMAN TASCO: Thank you.

COUNCIL PRESIDENT VERNA: You're welcome.

The Chair recognizes Councilwoman Blackwell.

COUNCILWOMAN BLACKWELL: Thank you, Madam President.

I want to piggyback on some things that have been asked and talk about a few things. On Page 2 of the Five-Year Plan, we talk about the rapidly escalating pension costs. And in your testimony, Ms. Wilkerson, you stated that pension costs are $800 million higher. The Five-Year Plan says that the fund has meet its 9 percent goals in the past four fiscal years, losing 6 percent in '01 and another 5.2 percent in '02. What are we going to do about meeting our goals? Or do we have new investment strategy? What are our plans from here on to make life better for us?

MS. WILKERSON: Ms. Bell testified -- Gwendolyn Bell testified on Monday that the Pension Fund is looking at its investment policy, is evaluating taking on investments that would return a higher yield. It would involve more risk for the fund. It does periodically evaluate its managers. It's also looking at making changes in its managers as it makes changes in its policy. I can have her respond during the course of the budget hearings more particularly, but this continues to be a challenge.

Mr. McNeeley explained on Monday that although the pension fund is exceeding the 9 percent return, that it assumes -- although it's exceeding that now, there were years when in '01 and '02 when it underperformed, but because there's a five-year rolling average, we'll continue to suffer from those years of under-performance for several more years. Hopefully, though, we'll come out of the woods. Probably not during the course of this plan, but perhaps in future years and so it won't be as large a burden. We will be underfunded, substantially unfunded, and it's going to remain a challenge.

COUNCILWOMAN BLACKWELL: Yes, we did

hear that and we appreciate any further level of detail as it is available.

On Page 9, you talk about the structural financial challenges, and we continue to be frustrated as well about the issue of social services and high crime and poverty rates going up, but yet the whole issue of the City facing identifying budget reductions, including services that result in high poverty and crime rates. And we just wonder how we see it. The President has talked and others have today about the cost of doing business and what areas we want to give over to the State and what we're going to do about crime here. We know that we can't reduce jobs, maintain service levels, and not have the State pay its share. Do you have any creative ways that we're going to deal with this whole area of employment, especially as it relates to minority inclusion?

MS. WILKERSON: We're looking at a number of initiatives to better focus the resources of the Administration to support job growth. We're looking at -- and it will be in the Blueprint that the Mayor announces, looking at ways to make better use of City job opportunities. For example, the NTI program was extremely successful in trying to create business opportunities and job opportunities for minorities and small businesses out of the demolition program that we operated. We want to try to expand that model in order to make sure that we do as we can do to create more opportunities.

The Administration is going to -- there are ongoing conversations about trying to get the State to pick up its share. For example, we worked through the whole SEPTA discussion. SEPTA funding involves some kind of local match. That's an area where we have an annual expenditure in excess of $59 million. We pay more to support this transit system out of our General Fund than almost any other major City in the country. As we talk about adequate funding for SEPTA, the Administration is interested in trying to correct some of that formula, find funding resources for SEPTA that don't drain as heavily on the General Fund.

But I think a lot of fixing Philadelphia is going to turn on getting the corrections at the state level. And, from my perspective, part of the problem with the tax conversation we're having to do now is that we look to do it all internally without trying to get some of the correction at the state level.

COUNCILWOMAN BLACKWELL: My time is up already?

COUNCIL PRESIDENT VERNA: Believe it or not.

COUNCILWOMAN BLACKWELL: I'll come back because I specifically want to talk about SEPTA a little bit and the parking tax.

COUNCIL PRESIDENT VERNA: The Chair recognizes Councilman Clarke.

COUNCILMAN CLARKE: Thank you, Madam President.

Good morning.

I'd like to ask a couple questions about 040789, the abatement bill. I actually got a solicitor's opinion yesterday that talked about some Constitutional issues, and

I'm not prepared to challenge that at this point because we have some of our staff looking at the constitutional issue, so I won't deal with that at this point.

With respect to your chart and the projections, the impact 3.8 million in the first year and 49.9 in the Five-Year Plan. How were those projections made? And did you include the fourth year in the initial business starts as it relates to additional revenue?

MR. MCNEELEY: Bring up the Revenue Commissioner in terms of the logistics, but kind of briefly, there's a first-year impact is that new businesses get the credit and then they get it in the second year, and then other businesses get it in their first year and so it kind of layers in.

COMMISSIONER KAMMERDEINER: Good morning. Nancy Kammerdeiner, Revenue Commissioner. What Sean was outlining was basically what we looked at. We took information from new businesses that were created in a given period, looked at what they paid in the gross receipts tax. That was essentially $4 million. And that was in their first year of filing. And every time another group would come on in that three years, you would add essentially another $4 million, on average, in terms of the first year filing. We chose to be conservative here and not expect that businesses would grow dramatically, that their business level would be approximately the same in each of the following years as they were in that first year.

COUNCILMAN CLARKE: Why would you make that assumption, that there would not be any increase?

If we pretty much concur to various degrees that the gross receipts tax is probably the most problematic business tax, if a business now doesn't have to pay that tax in the first three years, why would we assume that people now wouldn't take advantage of that?

COMMISSIONER KAMMERDEINER: I'm saying that a given business, some of them will be successful in their second and third year, they will have higher gross receipts than they had in their first year, but others will have a lower gross receipt in their second and third year. So for purposes of this analysis --

COUNCILMAN CLARKE: But I'm talking about your assumption that there will not be any additional businesses created as a result of this incentive.

COMMISSIONER KAMMERDEINER: Again, this is the conservative piece. To the extent that more businesses are created, to the extent that either this bill itself or the other bills that have already been enacted or may be considered will encourage new business come into Philadelphia, these numbers go higher. This is the --

COUNCILMAN CLARKE: Don't you think that that's a likelihood? If the gross receipts tax is the most onerous tax, why would you think that it would remain flat? Or is it that you just couldn't figure out how to estimate that?

MS. KAMMERDEINER: No. In fact, something that we prepared in terms of looking at this, the very next point is to the extent the other economic stimulus programs are successful in bringing new business to Philadelphia, the cost of this bill will increase. So we certainly did look at that as something that is very likely to happen both because of the potential success of this measure if it were enacted and creating new businesses.

COUNCILMAN CLARKE: The cost of the bill will increase based on addition businesses that will created as result of this bill, but in the fourth year -- or I'll give you the fifth year, assuming that the first year doesn't take off as dramatically as I think it will. Then we will have a drastic increase in revenue.

COMMISSIONER KAMMERDEINER: We looked initially at what the cost would be in the first three years. And then as you go on, we would need some experience from this to really get a better sense of what the overall impact would be. And so the basic analysis was done --

COUNCILMAN CLARKE: But you say in your statement just now is that the cost of the bill would increase dramatically, assuming that the number of businesses increase dramatically. But yet you don't take into account that the revenue would increase dramatically. You can't have it both ways. You can't say that businesses are going to be created, if they're created dramatically then the cost will be more but not acknowledge the revenue side of it.

COMMISSIONER KAMMERDEINER: As you get out into that fourth and fifth year, there would be some benefit from having these new businesses there. But at this point, we don't have a sense of what the value of that would be. And we're not yet ready to put a dollar figure on that.

MR. MCNEELEY: I think we can't tell how many businesses would be created that would already have been created without the bill that we already assume in our Five Year

Plan and how many businesses would be created specifically due to the bill. So to be as conservative and basic as possible, we don't assume any of that and we don't assume that the cost would be any higher either.

COUNCILMAN CLARKE: All right. It would probably be nice if you had like a question mark in this chart. Because, I mean, you're assuming the worse, and I think that assumption is, frankly speaking, a little ridiculous.

MR. MCNEELEY: It could be worse -- there's a balance. It could be worse in that if these businesses do really well --

COUNCILMAN CLARKE: How could it be worse? You're assuming because the gross receipts tax are eliminated that we're going to create less jobs? I mean, come on. Less new businesses? How could it be worse?

MS. WILKERSON: In the short term, it could be worse. In the long run, if the incentive is effective, then you end up --

COUNCILMAN CLARKE: How can it be worse in the short term? How could you sit here and say that there will be less businesses created as a result of the elimination of the gross receipts tax? How can you say that? Based on what?

MR. MCNEELEY: There are business created every year in the City of Philadelphia. There are over a thousand new business privilege licenses issued each year.

COUNCILMAN CLARKE: But not they're not going to start a business because we eliminate the gross receipts tax?

MS. WILKERSON: They won't be paying taxes. Business that currently are started won't be paying these taxes.

COUNCILMAN CLARKE: And that's what you assumed in the chart.

COUNCIL PRESIDENT VERNA: Councilman Clarke, excuse me, please. I believe Councilman Goode has a point of information.

COUNCILMAN GOODE: Thank you, Madam President.

Thank you, Councilman Clarke.

Mr. McNeeley, you know I'm very familiar with this whole argument about the natural ebb and flow of jobs, because at one point the Administration tried to use it against one of my job creation tax credit bills. My question is, following your line of reasoning, why you would try to cut the gross receipts tax at all?

MR. MCNEELEY: I think it is a little bit different line of reasoning. What we're saying as far as the cost to this bill is that we assume that a good portion of these businesses would be created anyway, so that's already assumed in the Five-Year Plan. This would be giving an abatement to a business that otherwise would be paying tax and would start without the passage of the law.

COUNCILMAN GOODE: So what is the tangible benefit to your tax cut?

MR. MCNEELEY: The tangible benefit is that in the long run we get to our rates to levels more like surrounding areas in other big cities.

COUNCILMAN GOODE: So you can't define what the actual benefit from your tax cut is? You've done no job projections based upon your tax cut?

MR. MCNEELEY: I think that there are different models we could use to do that, and if we budget conservatively --

COUNCILMAN GOODE: Have you used any? You can go through the different models you may have used to determine based upon your tax cut how many businesses and jobs will be created. I'm just asking did you do any quantifiable analysis?

MR. MCNEELEY: We have not explicitly done that.

COUNCILMAN GOODE: So you don't know the economic impact of your own tax cut?

MR. MCNEELEY: I don't know that that's true.

COUNCILMAN GOODE: Tell me what it is. If you know what the economic impact of your tax cut is, just describe to us what's the economic impact in terms of creating businesses and jobs of your tax cut.

MR. MCNEELEY: We have not explicitly identified a number for the creation of businesses and jobs as a result of the tax cut. We implicitly assume optimistic --

COUNCILMAN GOODE: So you don't know the economic impact of your tax cut?

MR. MCNEELEY: We have not explicitly identified it.

COUNCILMAN GOODE: Is that a yes or a no? Do you know the economic impact of your tax cut? Do you know what it's going to do?

MR. MCNEELEY: No.

COUNCILMAN GOODE: Thank you.

COUNCIL PRESIDENT VERNA: Councilman Clarke, your time is up so I'll give you an opportunity to ask one last question.

COUNCILMAN CLARKE: The next part of my question, it will take more than one question because I want to talk about the real estate abatement.

COUNCIL PRESIDENT VERNA: All right. Can we wait for the second go-around, please?

COUNCILMAN CLARKE: Yes, Council President.

COUNCIL PRESIDENT VERNA: At this time, I recognizes Councilman Kenney.

COUNCILMAN KENNEY: Thank you, Madam President.

I share the same frustration with Councilmembers Clarke and Goode and their line of questioning. I mean, it seems based on the reasoning at the table that we're better off increasing taxes, maybe it will increase jobs. I mean, the scenario that's being painted is the worst case scenario with no job projections, no growth, to make it look as bad as possible so we're forced into voting for something that we don't even have the analysis of from the Administration. You want it all ways. You want to give us the worst case scenario on the tax reductions, on Councilman Nutter's bill; you want to add no growth in jobs or anything else, and then you want to look at service cuts and all those other kind of things to paint a scenario that is the most dire consequence. I mean, that's not the way we should be attacking this problems.

MR. MCNEELEY: Councilman, if I may. The earlier questions -- there were earlier questions that addressed recent losses in jobs in Philadelphia. Philadelphia added jobs in three years, in, I think, the last 10-plus year. Our Five-Year Plan assumes flat employment, so we're assuming we don't lose jobs. That's better than what we've been doing.

COUNCILMAN KENNEY: Why do you assume that? This is the same question that these two Councilmembers are asking. You assume no job growth as a result of lower taxes, so in that regard, what's the sense of us lower taxes at all?

MR. MCNEELEY: We assume that we don't lose them anymore.

MS. REED: That's right. The City has been doing better in terms of job losses --

COUNCILMAN KENNEY: So this is a break-even exercise?

MR. MCNEELEY: Conservatively, we assume we do at least that well. We do at least that well that we stop the flow of job losses. And then if we do better than that, then we restore our fund balance and get back

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to a healthy range.

COUNCILMAN KENNEY: Well, I find problems within your analysis and your approach, and I think other Members of the Council also do.

Let me go back to an issue that came about in the Five-Year Plan. House Bill 2330 and Senate Bill 100 provided for state-wide tax reform. It's said in your plan that it's essential for the City's overall tax reform strategy. Could anyone at the table explain to me what our actual overall tax reform strategy is? I just really never heard it quantified.

MS. WILKERSON: The Administration supports the reduction in both the wage and business taxes. The Administration's approach, though, is to balance tax reductions with what we feel are the other ingredients in growing a healthy economy. And those are quality services. I think a lot of people writing about tax reform also note that you don't get the benefit of tax reform if you gut your City services. So the Administration has been adamant in its position that tax reduction has to be balanced with the need to commit to quality City services. The Administration also feels that it's essential that we be in a position to make strategic investments. And that we have done through our NTI program. We hope to make strategic investments in the New River City Program. The City has wonderful assets or wonderful assets that we don't take benefit from because --

COUNCILMAN KENNEY: Why does the City continue need to be the incentive for development? Wouldn't it make more sense to have a tax structure and a tax environment that allowed for private sector development without River City, without NTI, without putting tax money into programs that the private sector, if the environment existed here, a progressive tax environment, a good tax environment for business, wouldn't private sector companies be making this investment? Why would you take money out of the Water Fund for River City or out of our borrowing for NTI when if we had the right tax environment here in the first place, we would have private sector investment and not government sponsored investment.

MS. WILKERSON: Well, I think it happens sometimes. For example, Denver that has a more advantageous tax structure in Philadelphia, finds itself in the position of having to give incentives when they were trying to lore Comcast away from Philadelphia, Denver was throwing cash at Comcast.

COUNCILMAN KENNEY: I don't think that's exactly relevant. It's a battle over trying to steal a company as opposed to creating an environment where people would want to come in and develop the waterfront on their own without being incentivised to do it because they need the incentive because the tax structure is so terrible.

MS. WILKERSON: And I think that tax structure alone doesn't get it done, that businesses respond to a whole host of factors. I think that with respect to the waterfront, it is our feeling that you have to make some of these incentives, particularly formerly industrial areas where a lot of times developers encounter environmental costs, they encounter infrastructure costs like at the Navel Yard where you have flooding that happens. There are a lot of reasons why you end up having to level the playing field, reasons that don't necessarily have anything to do with the tax structure.

COUNCILMAN KENNEY: I would argue that the playing field is particularly out of kilter as a result of the tax structure, not as a close of flood lands at the --

What is the Administration's fall-back position on tax reform if the City does not receive the estimated $101 million from the State for wage tax relief beginning in 2007?

MS. REED: We would continue with the land reduction that are in the Five-Year Plan. That's a one-time decrease that has suggested as a source for the City.

COUNCILMAN KENNEY: I'll come back, Madam President.

COUNCIL PRESIDENT VERNA: Thank you.

The Chair recognizes Councilman Kelly.

COUNCILMAN KELLY: Thank you, Madam President. I just want to know very briefly how many new businesses have been started in Philadelphia over the last five years?

MS. WILKERSON: I can get that number. I don't have it.

COUNCILMAN KELLY: I also want to know how many have left Philadelphia in the last five years.

MS. WILKERSON: I'll get that number.

COUNCILMAN KELLY: Because I think Councilman Kenney has just touched on an important nerve in your testimony this morning, and that's your dim view on the supply side economics due to these tax cuts.

MR. MCNEELEY: Just to follow-up, the presentation --

COUNCILMAN KELLY: I mean, your estimates are very, very low.

MR. MCNEELEY: The presentation

attached to our testimony, the Power Point, Page 13 of that presentation shows that these wage tax growth assumption are the highest of any of the City's Five-Year Plans. So we don't feel that this is a worst case or pessimistic. We're projecting 4 percent growth in the wage tax in the out years. 4 percent in the BPT. And the federal government tells us that inflation is only expected to be 2.2 percent. So somewhere in there, you know, there's some real growth.

COUNCILMAN KELLY: I agree on one point. I think you're going in the right direction when you're talking about reduction of the gross receipts tax. That has to be probably the worst tax in the world, in my opinion. The sooner we get rid of that tax, I think the better off we're going to be in this City than we can be.

MS. WILKERSON: I think the conversation ends up being skewed if we just limit it to a conversation about tax reduction. When I was here on Monday testifying, the question was about why do you have to cut this service; why do we have to get rid of white metals; why can't we collect those anymore; what about the library; why do we have to pare back the library hours? You know, you may have created a program that you say is okay but we know that in the end is less. What I'm not hearing is what services the City is willing to forfeit in order to fund these tax reductions. That gets to be the critical question for everybody. Nobody disagrees with the premise that tax-free Philadelphia would be a more competitive Philadelphia. What I'm not hearing from people is, what services are we willing to forfeit?

People have said, generate revenue. We have tackled every proposal that was put forward and are bringing in over $200 million in new revenue under this Five-Year Plan. We were told manage more effectively. We came up with a proposal to manage better, and what we were faced with is fighting in court, fighting in arbitration, challenging our plans to manage more effectively. We've come forward with proposals to downsize our facilities, and what we're met with is in some cases we're able to agree and collaborate, in other cases there's resistance. If we're going to have tax reduction, then we have to be willing to do less than what we're doing now.

The other part that isn't addressed is what was underpinning a lot of what the tax Reform Commission proposed. It did not propose simply reducing taxes. It proposed shifting the taxes in Philadelphia, reducing the business taxes and moving it on to the real estate tax. And what I have not heard is anybody call for an increase in the real estate taxes in order to fund all these very aggressive business taxes. That's the fundamental premise of the Tax Reform Commission. And if we're going to have a conversation about tax reform in Philadelphia, we ought to talk about the whole proposal for tax reform, not simply a program for tax reduction.

COUNCILMAN NUTTER: Point of information.

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

COUNCILMAN NUTTER: Madam Chief of Staff, based on your last statement, are you suggesting that the Administration is prepared to support an increase in real estate tax?

MS. WILKERSON: Nope. The Administration has come forward with a proposal to reduce the gross receipts tax and to offset it with an increase in the parking tax. The Administration, under the current real estate tax environment, is not prepared to support an increase in the real estate tax. That's why we've come forward --

COUNCILMAN NUTTER: Madam Chief of Staff, you just complained that no one has put forth such a proposal in accordance with the dictates or proposals of the Tax Reform Commission. So if you like that idea, why didn't the Administration put forward that proposal?

MS. WILKERSON: What I'm saying is that for those who are proposing massive tax reduction there ought to be a matching proposal to either increase revenue to the City through other taxes or begin to identity those services that ought to be eliminated. That's what's missing from this conversation. Everyone agrees that tax reduction is good for the City. The question maintains --

COUNCILMAN NUTTER: I think there are 28 recommendations in the report. I'd love to hear the Administration on the other one, where are cost-cutting proposes, not just what programs can be eliminated. Where would you find in the Five-Year Plan a layout of all the cost-cutting measures that have been put forward?

MS. WILKERSON: If you look at the introduction of the Five-Year Plan, we go through all the budget initiatives -- almost all the budget initiatives that the Administration has pursued. We've reduced the personnel costs or reduced the operating costs of every department by approximately 5 percent. We've eliminated -- we were talking about some of them on Monday. We've had changes in the Streets Department. We're standardizing trash collection. We are -- everything from limiting the hours, we have drawbridges manned to reducing the number of districts that we have.

MS. REED: We actually have a hundred million dollars of initiatives in Fiscal '06.

COUNCILMAN NUTTER: What page are you on, Ms. Reed.

MS. REED: I'm on Page 7 of the introduction.

COUNCILMAN NUTTER: Of the Five-Year Plan?

MS. REED: Yes.

COUNCILMAN NUTTER: Okay.

MS. REED: But as we look at all the initiatives that we have both on the revenue and expenditure side, they do total 103 million for Fiscal '06 and add up to 577 million over the life of the plan. And we did discuss some of them on Monday.

COUNCILMAN NUTTER: Are you talking about what starts on small number 6 initiatives for FY '06 to '10 budget?

MS. REED: Yes.

COUNCILMAN NUTTER: And you're saying within these introductory pages that you've got $100 million in savings?

MS. REED: Yes. That's a summary that's probably not every single one of them --

COUNCILMAN NUTTER: I'm sorry, I didn't hear you.

MS. REED: Some of them are revenue. Some of the initiatives are revenue initiatives.

COUNCILMAN NUTTER: Are revenue initiatives?

MS. REED: Yes.

COUNCILMAN NUTTER: And the others are cost-cutting?

MS. REED: Right, most of them.

COUNCILMAN NUTTER: And you have a figure that goes with each one of these?

MS. REED: Yes.

COUNCILMAN NUTTER: Okay, I'll come back. It's just a point of information.

Thank you.

COUNCIL PRESIDENT VERNA: Councilman Kelly, you will be recognized, but Councilman Goode has a point of information.

COUNCILMAN GOODE: Just for clarity of the record, Madam President, I want the Chief of Staff to clarify what she said regarding the Tax Reform Commission report, whether it actually called for an increase in property tax revenue to offset business and wage tax cuts or an increase in property tax rate?

I believe it called for an increase in property tax revenue, not rate.

MS. WILKERSON: I don't remember the exact language.

COUNCILMAN GOODE: But it is a huge difference, because essentially, the Tax Reform Commission assumed that property tax values are going to rise, the property tax revenue was going to increase and, therefore, that, along with the parking tax would pay for wage and business tax cuts.

MS. WILKERSON: We've got to be

willing to take the revenue from the increase in the property tax. When property taxes went up a few years ago about 10 percent, we on average -- or less than 10 percent, we were engaged in an active conversation about capping the increase at 4 percent.

COUNCILMAN GOODE: But I'm simply trying to clarify the record in terms of what you believe the Tax Reform Commission said, where they, in fact, called for an increase property tax rate or just assumed an increase in property tax revenue based upon increasing real estate values, which you take a whole lot of credit for in terms of NTI.

MR. MCNEELEY: Volume 1 of the Tax Reform Commission report, Page 76 says, "The Commission considered that if all the revenue-generating failed and there is no other way to fund the Commission's package of tax reform, the City could increase property based tax rates."

COUNCILMAN GOODE: Could.

MR. MCNEELEY: That's the suggestion.

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COUNCILMAN GOODE: No, it's not a suggestion. It's an analysis. The Commission had several recommendations where they actually even developed bills patterned to those relations, and none of those recommendations called for property tax rate increase. So if the Commission wanted to call for property tax rate increase, it would have done so formally in the form of a recommendation. Then it would have crafted a bill based upon that recommendation. They did not do that. They did not call for a property tax rate increase.

MR. MCNEELEY: I just read to you from the report the Commission was not charged with identifying ways of funding its recommendations, so it did not present what I just read to you as a formal recommendation, but it's there.

COUNCILMAN GOODE: There were several scenarios laid out: A scenario if you invest a hundred million dollars and cutting this tax and that tax. There were several different analyses done. But the question is, they never, ever said that what they were doing were predicated upon a property tax rate increase. And so are you here to suggest that they assume property tax rate increase or property tax revenue increase?

MR. MCNEELEY: They didn't assume anyway to pay for it because they didn't have to. What they recommended were ways to reform the tax structure. They have a chapter called the Financing Tax Reform and I read to you a sentence from that chapter.

COUNCILMAN GOODE: So the parking tax rate increase is your idea?

MS. WILKERSON: The parking tax rate increase is one of the things that was proposed by the Tax Reform Commission as an alternative. I think whether you get it through national growth in property values or increasing the tax rate, I think what's essential is that the Tax Reform Commission recognized that you may not be able to fund all the proposed reductions simply by cutting City expenses, that there would come a point in time at which there would have to be additional revenue. It's either going to come out natural growth in the real estate tax or it's going to come from increasing the rate to generate additional revenue off the real estate tax.

COUNCILMAN GOODE: But there was no specific recommendation for a real estate property tax rate increase.

MS. WILKERSON: I disagree with that reading of the Reform Commission's report.

COUNCILMAN GOODE: They made specific recommendations and crafted specific bills based upon those recommendations. None of those recommendations and none of those bills they crafted called for property tax rate increase.

Thank you, Madam President.

COUNCIL PRESIDENT VERNA: You're welcome.

The Chair recognizes Councilman Kelly.

COUNCILMAN KELLY: Thank you, Madam President.

I would like to know if the

Administration would still consider the Tax Reform recommendations that were put in, especially if the taxes on property were included.

MS. WILKERSON: Would we consider additional --

COUNCILMAN KELLY: Yes.

MS. WILKERSON: If there were additional revenue, would we support shifting from business taxes on to property taxes in order to more aggressively --

COUNCILMAN KELLY: Right.

MS. WILKERSON: I think the Administration has concerns about the senior citizens in Philadelphia and the people who are in neighborhoods that are experiencing particularly aggressive growth, and there would have to be something that would provide abatement so that we don't end up with people being pushed out of their homes.

When the Mayor was in City Council, he, in fact, sponsored legislation that created the senior abatement that exists currently. That is something that -- that approach we think is essential, particularly when you have property values increasing. You've had good growth in neighborhoods. That growth is a good thing. We have to be willing to capture it. But at the same time, there's got to be a recognition that there are people on fixed incomes, people who live in neighborhoods that can't keep up with the growth in taxes, and it's our position those people shouldn't be forced to lose their properties.

COUNCILMAN KELLY: So you wouldn't consider that.

MS. WILKERSON: We would consider that.

COUNCILMAN KELLY: You would or wouldn't not.

MS. WILKERSON: We would if there is adequate protection for those who are vulnerable as a result of the increase in values in property. But, you know, a lot of what we're doing, a lot of what we're doing with our neighborhoods, a lot of benefits that's supposed to come from tax reduction is the result also of an increase in real estate values, and we have to put ourselves in a position to capture some of that increase in value.

MS. REED: Actually, specifically, sir, the estimates that were made last year were something like an $11 million property tax increase effect as a result of tax reform, and that translates into a sort of natural growth of about 11 --

COUNCILMAN KELLY: This was the recommendation of the Tax Reform Commission?

MS. REED: This is some analysis by E Consult. It was part of the report that there would be a resulting 11.7 percent increase in the average property tax bill in 2010 going up to maybe 34 percent by 2017. So property tax, as the Chief of Staff said, is assumed.

COUNCILMAN KELLY: Thank you.

Thank you, Madam President.

COUNCIL PRESIDENT VERNA: You're welcome.

I'd like to let the record reflect

that I certainly instigated the freeze on senior citizen taxes if they were under the PACE guidelines.

Ms. Wilkerson, on Page 2 of your testimony, you indicate that "Research has shown that the gross receipts portion of the BPT is an impediment to economic growth in Philadelphia. Accelerating the proposed reduction in this tax is an investment and economic development if done in a way that does not cause deficits or service reductions that would undermine the value of the tax reductions."

What do you determine what the optimum reduction is before you begin to undermine the value of the reductions?

MS. WILKERSON: Undermine the value of?

COUNCIL PRESIDENT VERNA: The reductions.

MS. WILKERSON: I think it's when you begin seeing an erosion in City services, in City amenities. What we know is that as important as taxes are, there are a lot of other things that go into businesses deciding to locate here and grow here. Schools are important. Amenities are important. The cultural amenities in the City are important. The cleanliness of the streets, the safety of the streets are all important things in companies deciding to locate here and grow here. When you begin to find yourself in a position that you can't fund the amenities like you really think you ought to, when you get to the point that you've got to begin constricting the library hours, the art museum funding is cut, when you start limiting the trash pickup, those are the kinds of things that reflect a degradation in the quality of life in the City. And they can reach the point that they become a disincentive for people to come here. I don't know that there's a magical number. I think it is an evaluation of the quality of life. Fortunately, one of the things that the City does is a citizen satisfaction survey. Every July, I believe, we're out surveying residents about the quality of life and we measure things like trash pickup and library and recreation services. So I think we will begin to have a barometer that tells us when we're doing well and when the residents don't think we're doing as well.

One of the questions we started asking in the citizen satisfaction survey a couple years ago was "Would you rather have services or tax reduction?" And one of the things that residents told us is that they wanted services. It wasn't a huge margin. They didn't like paying taxes either. But they made it very clear that services in the City were fundamental. It's the kind of things that allow people to stay in our neighborhoods.

COUNCIL PRESIDENT VERNA: Was that survey also taken for the business community?

MS. WILKERSON: It's just residents. I don't know that we surveyed businesses. That would be interesting thing to begin surveying businesses in addition to just residents. We certainly can do that.

COUNCIL PRESIDENT VERNA: I think it

would be very interesting.

Ms. Wilkerson, is it safe to assume that the Administration's position that overall parking rates in Center City do not impede businesses?

MS. WILKERSON: I think they're probably -- there may be a point at which parking rates impact. We have not done a study to determine that with specificity. But there are a lot of aspects to parking. There's the on-street parking that is not impacted by this. There's valet parking. There are a lot of things that go into --

COUNCIL PRESIDENT VERNA: But what infuriates me, you talk about valet parking. I consistently complain about this, and I don't know if anything is ever done about it. You valet park. You go to a restaurant. You're on Walnut Street. You walk out of the restaurant and low and behold you have paid $17 for valet parking and low and behold there your car sits on Walnut Street. That's really very, very unfair.

MS. WILKERSON: I will make sure to

point that out to the Managing Director. I share your frustration.

COUNCIL PRESIDENT VERNA: It's all over the City that this happens. I think it's truly, truly unfair to people coming into Center City wanting to go to the theater or to a restaurant, wherever they're going, to pay that kind of money when they have could have very easily parked on the street themselves.

MS. WILKERSON: I think that valet parking -- I remember when valet parking was enacted. I think that it is something that probably needs to be revisited in the City.

COUNCIL PRESIDENT VERNA: Whose responsibility is that? Is that police?

MS. WILKERSON: L&I in involved in -- I think is responsible for the enforcement of it. But I think that the whole policy -- some blocks on Walnut Street in particular there's almost nothing but valet parking. And I know that some firms have lost their licenses to do valet parking because they've been violating law.

COUNCIL PRESIDENT VERNA:

Restaurants on Front Street or Market Street, it's the same issue. I think it truly infuriates people.

MS. WILKERSON: I will raise that with the Managing Director and get back to you so by the time L&I comes, we'll have something.

COUNCIL PRESIDENT VERNA: Point of information, Councilman Rizzo.

COUNCILMAN RIZZO: Madam President, this is what -- and I don't want to use the word upset, but this is what concerns me. You have brought that up, that same issue, time after time after time. If you played back the tape from a year ago, a year ago before, you said the same thing; I said the same thing. Today we hear, "Well, we're going to let the Managing Director know." Why do you have to let the Administration know that they've got a problem where valet parkers take your car around the block, put it at an expired meter. The parking authority gives it a ticket. The valet parker goes back, sees that it got a ticket, throws the ticket down the inlet. Two months later you get a summons in the mail. You paid 17 bucks. We have to tell them to manage valet parking? That's a disgrace.

MS. WILKERSON: I'd like to have the Managing Director come and respond to that. I'll try to get him, because I think that there has been enforcement. I think the problem may be with the underlying policy that supports valet parker.

COUNCILMAN RIZZO: I had the point of order, Madam President. Again, what concerns me is it's like talking -- I used the analogy yesterday -- to that pillar there in some occasions trying to get messages across. And you get patronized by saying, "We appreciate your suggestions, they're good ones." Well, if they're good ones, they should be doing it. They should be policing the valet parking, which I believe is also -- they took a shot at the Parking Authority earlier in the process. It is the Parking Authority's responsibility to manage that. And if we have a problem with the way valet parking is run in this City and people are not coming back -- and you said this, not coming back because I know people that have gotten that ticket where instead of it going in a garage, it goes around the corner in a bus zone, gets the ticket, and obviously they don't want to let the person know that they got the ticket, they rip it up or throw it away and then you get the summons two weeks later. They're coming back? I don't think so. Thank you.

COUNCIL PRESIDENT VERNA: Thank you.

COUNCILWOMAN BLACKWELL: Point of information, Madam President.

COUNCIL PRESIDENT VERNA: Yes, the Chair recognizes Councilwoman Blackwell for a point of information.

COUNCILWOMAN BLACKWELL: Thank you. I agree with what you said. And also perhaps -- I don't know if Ms. Wilkerson, but since you said the Managing Director is coming back on the very issue you mentioned, I don't know how, given all the problems with SEPTA, that it increases SEPTA ridership instead of decreasing it. If you've got to get a bus to come into Center City, as you mentioned, and pay more for parking, I absolutely don't know how that increases SEPTA ridership.

And also, the other part of my point of information is that according to the Five-Year Plan, an increase from 15 to 20 percent in this tax leads to a 32 percent increase in collections. I don't know what that means. What's the number on this small reduction in tax base and how did they even come up with this 32 percent increase?

None of these make sense. And those are my issues and point of information.

MS. REED: The increase in the rate of the parking tax is based on the experience of the yield from the tax. You know, 15 percent yields a certain amount and therefore the increase yields the higher amount. It's possible there would be some decline in the usage of parking as a result of the increase, but it is not a very great increase and doesn't put Philadelphia parking out of line with a lot of other places.

COUNCILWOMAN BLACKWELL: I don't

understand that. Tell me how it increases SEPTA ridership.

MS. WILKERSON: Because it may create some disincentive for people to drive into the City because they'll have to pay parking. They may in turn -- some of the people may in turn choose public transportation.

I think to put it in perspective, if you have a $20 parking bill, this would increase your parking bill by a dollar.

This is being proposed as a way of trying to do more in terms of tax reductions. And if we want to fund tax reductions, we've got to come up with ways of doing that. And there are only so many areas that are viable for taxation. The parking tax, we think, does not create a disincentive for business growth in Philadelphia. We believe that the gross receipts tax does, and so we propose shifting from a tax that we don't think creates a disincentive -- shift from one that creates a disincentive to one that doesn't.

COUNCILWOMAN BLACKWELL: Well, we

still agree that it will not increase SEPTA ridership. That still just doesn't make sense to me, Madam President. Thank you. That's the end of my point of information.

COUNCIL PRESIDENT VERNA: You're welcome.

We're still in the first go-around.

The Chair recognizes Councilwoman Brown.

COUNCILWOMAN BROWN: We've given considerable amount of discussion of the taxes on the small business community and we should. I want to shift it just for a moment to regular households. Do households default and utility bills increase when families face sharp increases in real estate taxes? What impact might increased real estate taxes have on both PGW and Water Department Revenue?

MS. WILKERSON: We've not done an analysis of that. Common sense would tell you at some point we are sucking a lot of income out of households. We know that -- I forget exactly what the time parameter is, but since gas costs began to increase dramatically, about $1.2 billion will have gone to pay the increase in the cost of gas. That takes enormous revenue out of the local economy. It takes a lot of money out of families' household, and there are concerns about that. So we keep going into the same well. We keep drawing from the same well, and I would expect that at some point people are not paying tax bills; they're paying their gas bills. Common sense tells you that that's happening in some instances.

COUNCILWOMAN BROWN: And those instances are principally anecdotal; there's no hard data?

MS. WILKERSON: No. We might be able to figure out a way of trying to measure that. We could probably figure out a way to begin trying to measure that.

COUNCILWOMAN BROWN: Back to the discussion around the impact of these potential tax measures on small businesses. What services to small and neighborhood businesses might be in jeopardy if the revenue losses from further cuts in the business taxes are not made up by the increases in the other taxes? I mean, the kinds of services that small neighborhood businesses require and deserve local police protection, street lighting, et cetera. Even garbage and trash pickup. So what is the Administration's view with regard to that?

MS. REED: You're asking the question -- I'm just trying to make sure I understand it -- what services will be lost --

COUNCILWOMAN BROWN: Might be in jeopardy as a result of the revenue losses.

MS. REED: Probably Licenses and Inspections for food licenses, the turnaround on that is going to be slower for any kind of inspection. Turnaround on that would be slower. For those for whom the condition of the street and the curb are important, all of that slow down. It will not stop, but it will be slowed down.

MS. WILKERSON: I think the other area that is at risk that particularly would impact the business community -- we've done a lot to try to put e-billing, for example. You can pay a lot of bills on-line now that you previously had to come into the City to pay. We're trying to permitting on-line so that business people don't have to come into the City and wait in line in the concourse. That reorganization or change in how we provide services is enormously expensive. All these IT initiatives cost a lot of money upfront. They cost a lot of money in order to sustained them over time. Those are the kinds of things that make Philadelphia more business friendly, but they're also the kinds of things that cost money. Historically, we funded them out of the Operating Budget. It may make sense to fund some of them out of the Capital Budget, but when we go to turn there, we've got constraints in our Capital Budget as well.

I think it would be those kinds of initiatives that would impact businesses more disproportionately than the rest of the community.

COUNCILWOMAN BROWN: How far along are we with this E -- what did you call it?

MS. WILKERSON: E-Government,

electronic government. We've got e-billing. For example, you can pay your water bill on-line. You can pay taxes on-line. You can file taxes on-line. There are a lot of real estate related documents that are available on-line through the Records Department.

When Diane Neff, the CIO, comes, she can talk about it in more detail. But there any number of initiatives that the Administration has pursued in order to make it easier and more convenient. I think to the extent particularly a small business person doesn't have to close down the business in order to come to the City to transact business is a big help.

COUNCILWOMAN BROWN: My final question is, what is the ratio and gender makeup of the City workforce and what impact does it have on employment opportunities for minorities and women when the City is forced to reduce its workforce as it is doing now?

MS. WILKERSON: I will get you that information.

COUNCILWOMAN BROWN: And the

follow-up question could be what measures or protocols are you considering to retain or maintain a balance, if you will, of diversity in the workforce?

MS. WILKERSON: The Managing Director has those numbers.

COUNCILWOMAN BROWN: Thank you.

Thank you, Madam President.

COUNCIL PRESIDENT VERNA: You're welcome.

If I can have my colleagues attention for just a moment. We have a very, very lengthy list of witnesses that will be coming in starting at 1:15. Our schedule indicates that we would be breaking at 12:30 to 1:15. I see that there are a number of Councilmembers that still want to be recognized. We have a choice. We can either just take a 15-minute break or we could have the Administration come back at a later date. What is the feeling of the Members?

So we will stand in recess then until 1:15, and the Administration will come back at a later date. Thank you very much.

(Hearing recess.)

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COUNCIL PRESIDENT VERNA: Good afternoon, everyone. This is a continued public hearing of the Committee of the Whole on Bill Nos. 040767, 050007, 050008, and 040789.

We do have a very, very lengthy list of witnesses that want to testify, and we certainly want to give everyone the opportunity to do so. In order for that to happen, I am setting some ground rules, and that will be that individuals testifying will be given five minutes. If there are panels to testify, they will be given 15 minutes.

So with that, I would ask Mr. McPherson to please call our first witness.

MR. MCPHERSON: Mark Schweiker, Greater Philadelphia Chamber of Commerce.

COUNCIL PRESIDENT VERNA: Good afternoon and welcome.

MR. SCHWEIKER: Thank you so much for the opportunity to visit and provide some thoughts. For the record, I am Mark

Schweiker, President and CEO of the Greater Philadelphia Chamber of Commerce. It is indeed a pleasure to be able to testify on the proposals that you already mentioned affecting the business privilege tax as well as the proposed changes to the parking tax.

First, I'd like to point out the progress we have made in just the past year on the issue of the business privilege tax. Both the Mayor and Members of City Council have come to recognize that this tax is one of the main culprits which restrain the growth of business in our City.

In Philadelphia, our leaders are discussing tax cuts, a message that we need to shout to the rest of the country. After all, wage tax cuts were accelerated last year, and the cuts will continue as gaming is put into place. Our members have always felt that the business privilege tax was one of the biggest points of contention that they faced in doing business in Philadelphia. It is a tax that hampers small businesses from growing and often causes other businesses to set up shop

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in suburban locations.

The Bureau of Labor Statistics within the federal government last month once again cited our City as second in the nation behind Detroit in job loss with a downturn of almost 10,000 jobs.

And if I could just direct the Chamber's attention to some illustrations we have to my right, especially the chart to the left which illustrates -- and certainly it's an alarming trend line. It illustrates the loss of jobs which have been sustained by this City since 1969. I won't go into all of the details, but you can see with the blue line heading south, so to speak, is in 1969 this City enjoyed close to 938,000 jobs. According to the Bureau of Labor Statistics, ending in mid-2004 with that 10,000 job loss that I mentioned in the last year alone, we are now at 679,000 jobs. Make no mistake, the tax model and the prospects of job growth which were hampered as a result of unattractive tax models do lead to this drop in job growth.

And I might add very quickly for the

record, to the right the one chart illustrates the job growth that is being enjoyed in the outlying suburban counties in the red line. Certainly, a very positive direction in the red. And you'll see in contrast the blue line which represents that which is experienced in the City of Philadelphia, obviously, going in the wrong direction. And thus speak to the business privilege tax and what it means to investors, entrepreneurs, business people and job growth.

I know you will agree that this phenomenon must be reversed if we are to attain the long-term growth that all of us desire. We have many things going for us: New market rate housing is being built throughout the City. Two new office towers are being built downtown. Our sports franchises are having banner years. Bio 2005 is coming in June. The Barnes relocation is now a reality, and the Fox Chase Cancer Center is proposing expansion plans -- and I want to say this slowly because it bears emphasis -- that include 4,000 new City jobs over the next

20 years. And the promise of both gaming and Convention Center expansion are on the horizon.

Still, we loss residents and jobs in both our household and per capita income remain behind the median income in the rest of the Commonwealth. One is left to conclude that despite all of our assets, the cost of doing business in Philadelphia remains an anchor from which we must be freed.

If the business privilege tax only affected the largest of businesses, we could make a strong argument that it must be reduced and eliminated. The fact that small neighborhood businesses must bear the burden makes this call all the more critical.

Small neighborhood businesses are the heart of neighborhood economic development. If these businesses fail or move out of this City, it cost jobs in the neighborhoods and leads to the deterioration that many neighborhoods have experienced. It is truly important that neighborhood businesses in Philadelphia enjoy the same competitive landscape as those in suburban communities.

Having said this, the Chamber was pleased to see both the Mayor and Council recognize the need for addressing the business privilege tax. We recognize that each of the approaches begins to make the competitive landscape more level.

As we look at the components of the tax, we believe that Bill 040767 is the better approach. Our assessment is based on the fact that over the long term it addresses both the gross receipts and the net income portions of the tax while Bill 050008 only addresses gross receipts.

Let me point out that there are gross receipt taxes leveled in neighboring suburban communities. And we've done some research on this count. In 2004, there were 19 communities in Delaware County, 16 in Montgomery County, 10 in Bucks and 1 in Chester with some form of business privilege or mercantile tax. None of these jurisdictions imposes a BPT on net income.

That tax at 6.5 percent is higher than the wage tax. And each of you know well, the damaging effect that the wage tax alone has had on the City's economy. At 6.5 percent, the business privilege tax puts the City at a major competitive disadvantage.

Therefore, it is our belief that by reducing both portions of the business privilege tax and by seeing its eventual elimination, jobs will be created both downtown and in the neighborhoods.

And if I could, Council President Verna, just for the moment depart from an abstract discussion of the mathematics in talking about the business privilege tax. I'd like to describe a firm which does business in Yeadon literally 51 feet from the city line. This company, Union Packaging, is a manufacturer and is in the business of providing packaging for the fast food industry, $19 million in payroll, 78 employees, many of them from the City, and 4 million in wages.

Now, from a distance I'm going to

point to the corner of the Chamber and ask Mike Pearson to take a place there and he'll begin to walk over here and travel what is 51 feet from that point to the chair behind me. This gentleman is significant for a lot of reasons. We represent him, so to speak. We represent small business. Mike is a born and bred Philadelphian out of West Philly, employs 78 people. He's got the guts to give it a go, build his business. And unfortunately, because of the intimidation -- I shouldn't say intimidation. His concern and the lack of appeal in the business tax model, ended up in Yeadon 51 feet -- literally, his business, his front doors are 51 feet from the city line.

And so for all of those who believe this discussion is simply about mathematics and balancing City budgets, I want to go past the abstract and see the concrete. This is the kind of gentleman, given his heart and where he was raised, would love to do business in this City and employ more Philadelphians, and it's about to grow. Wouldn't it be nice that that business, Union Packaging, be here in the City of Philadelphia.

Now, it isn't my privilege to ask Mike to comment because I know we're mindful of time. But I thought it was our obligation as a representative of small businesses throughout this region and City to at least give all in this Chamber the firsthand opportunity to see someone that has a business and they're doing business and literally only 51 feet from the city line. And in the short time it took him to walk that 51 feet, wouldn't it be nice if we could boast a tax reform a more affordable business privilege tax so that the Mike Pearsons of the business world come into Philadelphia to do business here. So I just wanted to acknowledge Mike and his entrepreneurial nature and his background. I appreciate the privilege to do just that.

Having said that, I recognize that as public officials you are faced with the challenge of producing a budget which is balanced and addresses the needs of the citizens of Philadelphia. That responsibility must force you to look at factors which have led to the loss of jobs and seek ways to reverse that trend. It is incumbent upon us to grow our population which will in turn provide more revenue to the City to pay for services for the residents.

History has shown us that each time that we have reduced the rate of the wage tax, and you can go to the numbers, that the revenues have increased. That is good for our City and demonstrates that the trend should continue. Just a question, had we stopped those rate reductions or not begun them at all, we might have been facing an even faster exodus of citizen from our City. I would note notwithstanding gradual gross receipts reduction experienced during the past five years, the Fiscal '05 business privilege tax revenue forecast reflects a greater yield than Fiscal '01 revenue. Tax reform works.

We also believe that it is shortsighted to look to the parking tax as a means of generating extra revenue. Most would agree that the hospitality industry has been a source of growth in our economy over the past decade. Many of the jobs created in the industry are held by neighborhood residents. By raising the tax, we risk jeopardizing the many restaurants and entertainment venues that are supported by non-City residents who have helped to fuel our hospitality boom. As you remember, the Chamber opposed plans to raise this tax last year and remain in opposition of the current plan to increase parking taxes this year.

Last year I cited the impact not only on hospitality but also on sporting events and on the retail sector as a whole. Nothing has changed. Nothing has changed. Suburban malls still have plentiful and free parking.

While this tax may seem like a short-term fix, it can only serve to lessen the attractiveness of our retail and hospitality sectors. The increase in the parking tax would cause the City to lose revenues as well from the amusement tax and the liquor by the drink tax as fans and restaurant patrons seek alternate venues outside the City limits.

An increase in the parking tax will only further the perception of the high cost of doing business in the City.

In closing, we for our part at the Greater Philadelphia Chamber of Commerce are continuing in our efforts to market this City and region to business leaders around the country. Through the efforts of select Greater Philadelphia, we have raised more than 14 million in marketing and business development funds and have continued with the placement of promotional ads and materials around the country.

Recently these adds recognized the advancement represented by the Comcast tower construction commitment as well as our competitive real estate rates. We will continue such efforts and believe that they will lead to the attraction of more businesses to this City and our region overall.

And might say thank you to the Council for supporting the City's commitment to that Select Philadelphia endeavor as well.

In conclusion, your efforts to make Philadelphia more business friendly are critical if the City is to realize its share of new business coming from these efforts.

With that, I thank you for the opportunity to address the business privilege tax proposal as well as the parking tax. And again, I want to thank Mike for spending a few minutes with us as well.

COUNCIL PRESIDENT VERNA: Mr. Pearson, before I recognize any of the Councilmembers, is there a statement that you would like to add to what the Governor has already said?

MR. PEARSON: I think he really represents all of the Philadelphia businesses in regards to the tax situation. But I love the City. And to make it a vibrant City and create career opportunities for its residents, I think it's necessary that we address the tax issue.

COUNCIL PRESIDENT VERNA: Thank you.

At this time, the Chair recognizes

Councilman Goode.

COUNCILMAN GOODE: Thank you, Madam President.

Good afternoon, Governor. The questions I will ask you, just a few, are similar to what I asked last year. The first is, do we actually need to eliminate the net income tax in order to be economically competitive?

MR. SCHWEIKER: I think ideally, if we could get rid of it, there is no greater accelerant, from my standpoint, than that prospect. To be able to say to a perspective business -- I might add, 70 percent of the new jobs come from existing firms who choose to grow here. They are certainly going to love it. And I do think there is a connection between its ultimate elimination and job growth, yes.

COUNCILMAN GOODE: But do we need to eliminate it in order to be competitive?

MR. SCHWEIKER: Yes.

COUNCILMAN GOODE: Homeowners pay taxes, employees pay taxes; why shouldn't businesses pay some tax?

MR. SCHWEIKER: I don't know of a business person, be they in the City or around the region, that resents having to pay taxes of whatever form. It's the height of those taxes that begins to act as a retardant and stifles job growth and business expansion. I think they're willing to pay their fair share, but I think when you take a look at the fairness aspect, business people in the City of Philadelphia believe that it's gotten to the height where it's not fair.

But keep in mind, we're talking only about one tax. Today we're talking about the nets profits tax as relates to the BPT. But their employees are paying the wage tax. So they're paying, whether it's coming out of the company treasury or from the paycheck from the employee.

COUNCILMAN GOODE: At what point during the elimination of the BPT or in what year do you thing we would actually be competitive?

MR. SCHWEIKER: I don't have a

specific year that I could circle, Councilman Goode. I'm here trying to give voice to many concerned and frustrated business people, many of them small business people that just believe that when you take a look at the rather large bite that comes from the net piece of the business privilege tax, it's just staggering and it does prevent job growth and just want you to know that.

I think it's safe to say, and I've tried to quickly make that point during my remarks, that as the City's tax model becomes more affordable, literally lower, you're going to get job growth. We're seeing it when it comes to wage taxes. You lower the wage tax and collections do continue to come in.

COUNCILMAN GOODE: We're in complete agreement philosophically on that. Where we differ is whether we need to eliminate it.

My final question is, we also agree that small businesses create jobs. But what's the biggest obstacle for small businesses owned by minorities and women? Is it actually the tax burden or is it ratio and gender and geographic discrimination that exists in terms of small business lending?

MR. SCHWEIKER: That's certainly a question that should be asked all the time. It's probably excess access to capital. That's probably a colorblind kind of moment too. Small business people, whether they're people of color or women-led businesses, they're not short on ideas. They're not short on a place to locate a company. And as a parenthetical, we didn't prep Mike here. He was born and raised here and would like to do business here. Many of them would like to be in the City. I think it's access to capital.

And I'm happy to tell you that through the supplier network at the Chamber, we're working to remedy that. I won't expand on that, but we hear that cry loud and clear.

I'd kind of circle that one, Councilman.

COUNCILMAN GOODE: So as the Mayor presents his economic develop blueprint to the Chamber, you will be lobbying both for reducing the tax burden and access to capital for minorities and women?

MR. SCHWEIKER: That will not be a new position or aspiration for us. The Greater Philadelphia Chamber of Commerce has been persistent on that count for a long, long time. We have 6,000 members, I might add, and half of them, close to 3,000 right here in this City. So that has been their preference for a long time.

COUNCILMAN GOODE: Thank you, Governor.

MR. SCHWEIKER: You're welcome.

COUNCILMAN GOODE: Thank you, Madam President.

COUNCIL PRESIDENT VERNA: Thank you.

The Chair recognizes Councilwoman Blackwell.

COUNCILWOMAN BLACKWELL: Thank you.

Good afternoon, Mr. Governor.

What about the issue of or the possibility of some kind of phased-in reduction in increments, how do you feel about that, like maybe 5 percent and then maybe 10 percent?

MR. SCHWEIKER: A 10 percent drop in it?

COUNCILWOMAN BLACKWELL: Phase it out. If we're trying to reduce this tax, how would you feel about doing it in some phased-in way?

MR. SCHWEIKER: Well, depending on the pace of reduction. We would be likely encouraged. And I do believe that that is part and parcel of the outline; is it not?

COUNCILWOMAN BLACKWELL: Absolutely.

Thank you, Madam President

MR. SCHWEIKER: That would be sound.

COUNCILWOMAN BLACKWELL: Thank you.

COUNCIL PRESIDENT VERNA: Thank you.

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

The Chair recognizes Councilman DiCicco.

COUNCILMAN DICICCO: Thank you, Madam Chair.

Good afternoon, Governor Schweiker.

In your testimony on Page 4 you speak of the parking tax and you say that

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"Most would agree that the hospitality industry has been a source of growth in our economy over the past decade."

What other business entity when we think of Philadelphia could we say is a growth industry?

I mean, we have the medical institutions which are here. What I'm getting at is -- I was at a breakfast meeting a couple days ago with some developers and there was an economist who was there speaking about the regional economy, national economy, and he made a point I found quite interesting. I'll try to paraphrase him. He said, when you look at the national trend and a declining growth nationally, sometimes Philadelphia doesn't factor into that because we really don't have any major industry that is affected on a national level, for the most part. I mean, there are small cottage industries that may have some connection to what happens with General Motors or Chrysler Corporation, but --

MR. SCHWEIKER: Where they take a big hit when there's a downturn.

COUNCILMAN DICICCO: Right. We don't take that big of a hit, which is a good thing but --

MR. SCHWEIKER: We used to be that way.

COUNCILMAN DICICCO: We were. We're no longer there now.

But on the flip side of it, the bad thing is that we don't have any industry or industries that are that global that we could sustain some decline in other areas but yet still stay above the water.

So for me, in my opinion -- that's why I'm asking you -- aside from the hospitality industry, we really don't have a major industry, correct me if I'm wrong, that we can look to as far as growth.

MR. SCHWEIKER: Well, with all due respect, I'm going to quarrel with you on that.

COUNCILMAN DICICCO: I'm trying to be argumentative, I'm just trying to get to a point -- maybe I'm wrong and I'd like some clarification on that.

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MR. SCHWEIKER: Part of the Chamber's job is to create an economic literacy about where is the growth. Put it to you this way, after Boston and San Diego when it comes to biotech and life sciences, there is no region more splendid than ours. A case in point, there's only two regions in the country with four national cancer institute centers. The reason I mention that is, one, we have the distinction; and two, the medical and commercial good that comes from that research begotten by NCICs is immeasurable and creates companies and jobs. We don't know it all the time because we don't follow the chain of events. But there's a big economic payoff there.

And so to answer your question, I happen to believe that biotech and life sciences and big pharma, it is an industry sector that will enjoy accelerated growth. In fact, we can prove that it is. 80 percent of the world's pharma companies are within a 25-minute ride of us right here. I mentioned --

COUNCILMAN DICICCO: But they're not Philadelphia-based.

MR. SCHWEIKER: Many Philadelphians work there, though.

To some extent, we are restricted sometimes by our perspective and believe the City is in it alone, that the economic well-being the City and its residents is tied only to what goes on economically within the City limits. It's not true. It's not accurate. And the unit of competition in this day and age, Councilman, is the region, not a City along. And I'll venture to say that an awful lot of the employees in those businesses, whether big like GSK to smaller firms that are around and have been begotten by the University City Science Center are employing Philadelphians. So it is growing, and I think we can demonstrate that.

I might tell you, the largest recipient NIH funding, National Institute of Health funding in the country is just a few miles west of here at the University of Pennsylvania. And, friends, it's not just a remark about university research. Not far removed from that research are start-ups, commercialization, companies, jobs and paychecks. So you may see white robes, but business people ultimately see big paychecks in those white robe pockets. They're there.

COUNCILMAN DICICCO: And I appreciate your explanation. Maybe you're misunderstanding where I'm going with this. And I appreciate the work that the Chamber does not only for Philadelphia but for the region. But we're dealing with issues on tax reduction that will apply to Philadelphia and what we can do to keep businesses here and encourage businesses to move in. No disrespect to the outlying areas. I mean the gentleman sitting to your left is a perfect example. Fifty-one feet away from the City borders is where he set up his business. How do we make a gentleman like him and others come over to the other side 51 feet the other way?

So in that context, what I was saying is that as far as I can see, the growth industry, if not the top growth industry, it's probably up there in the top three is the hospitality industry. And that's my lead in to the next part of my question about the parking tax.

The growth industry for the most part one of the top three is hospitality. The negative effect is what I'm asking for. What do you perceive as a negative effect on the hospitality industry as a result of any increase in the parking tax?

Because on the one hand we're saying we're going to reduce your taxes here but we're going to raise them somewhere else. And most of the people who work in the hospitality industry in Philadelphia, I think it's something like 85 percent are Philadelphians. So I just wanted a little bit more detail, if you can, elaborate a little bit more on what your opinion is about the parking tax.

MR. SCHWEIKER: I think it slows retail activity. And certainly for a few businesses, the idea of higher parking tax means that they may not buy the tickets to the games. And so you damage -- you lower the prospect of the City collecting amusement tax revenue or the liquor by the drink tax. I mean, someone goes in to have a bottle of beer or someone goes in to have a drink, it's that prospect, I think, is diminished if they've got to go and pay a higher parking tax. So probably the easiest thing to do is just take a look at some of the folks -- perhaps a woman buying a dress at the King of Prussia Mall on Saturday and gets it for 200 bucks. And in the City, I know it's not going to be 200, but that's a whole other matter. The parking tax/surcharge, even though it's not a surcharge per se, they're going to pay 20 bucks just to park their car. So the dress has gone up by 10 percent. So the question is, is there any question that the fate that awaits a bigger parking tax is lessened retail activity.

And the place is cranking. I mean, some neighborhood streets are just cranking. And I think if you talk to restauranteurs, I think depending on the restaurant, take a look at suburban billing, maybe 50, 60 percent in some of these places. You could cut that down if all of a sudden for someone to take your keys and put it in a parking spot, they're out 20, they're going to rethink the idea of going in to have dinner some night..

COUNCILMAN DICICCO: Fortunately, at least for me, I haven't heard anything from the bar owners, restauranteurs in the City about this tax. I've been hearing from, obviously, the managers and operators because that's their business. But I think it would be important for them to speak out a little bit more. Them, meaning the restauranteurs and tavern owners about what they perceive as the negative impact on their business if this parking tax were to pass.

MR. SCHWEIKER: If I can mention one other thing, Councilman. On June 19th, if I could just mention this to your question about what industries are burgeoning. This biotech and life sciences, June 19th to the 21st, 20,000 of the world's leaders, entrepreneurs researches, technologists, venture capitalists, the entire leadership corps of that worldwide industry is coming here. They were in San Francisco last year. They had 18,000; 20,000 coming here. This is an example Select Greater Philadelphia and the industry and we have to turn out like we did for the Republican Convention, maybe not to that scale, but to be welcoming to these folks because they need investment ultimately and attention for our region and city and jobs for your constituents. And as I said, this isn't like having 20,000 chiefs of police come in who are looking to eat dinner every night for three nights. These are people who move operations, capital, and ideas around the planet, and they're coming here. And so enlighten regions and cities have to have their act together, and that what Select, in part, is meant to do. But that is an example. I think it's a confirmation that we are a hidden jewel as far as that industry that they've chosen to come here and says it's going to grow and even more.

COUNCILMAN DICICCO: Just the other

morning, I expressed my concern that even with the best intentions when we talk about under the Administration's plan to reduce the gross receipts tax, you're still looking at 2018. I just can't imagine like waiting 13 years to get the tax down to the level they're proposing. I mean, that's a lifetime.

MR. SCHWEIKER: Some of these folks are seeing a mixed bag.

COUNCILMAN DICICCO: I will certainly be retired by then.

MR. SCHWEIKER: Maybe you're not going to do it this spring, hopefully in springs to come. You know, the Governor deserves some credit, Governor Rendell, for expanding and then operating a loss carry forward. I don't have to get into the economics of it, but it just makes these businesses that -- according to the pro forma this is what happens when you're trying to discover new therapies and new drugs. They're going to lose money. And if they can carry forward those operating losses and diminish their tax obligation, they can live with some of that. So it's a mixed bag. They may see the net piece of the BPT as unattractive, but they see a Governor going to bat for that. That helps. It's kind of a mixed bag.

COUNCILMAN DICICCO: Thank you.

Thank you, Madam President.

COUNCIL PRESIDENT VERNA: You're welcome.

The Chair recognizes Councilman Nutter.

COUNCILMAN NUTTER: Thank you, Madam Chair.

Good after, Governor.

One comment and one question. First, thank you for your testimony and your participation and strong leadership in representing the variety of business sectors, small, medium, and large businesses throughout Philadelphia and the region. And I appreciate your continued support and efforts to try to change the onerous tax system in Philadelphia, which at times is stifling to growth and opportunity and making sure that people have jobs here, well-paying jobs here in the City.

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I did want to ask you, with regard to the measures in front of us, the Administration tax bill, in essence, covers Fiscal Year 2006 with, I would acknowledge, a significant reduction in the gross receipts portion of the business privilege tax; but by the legislation, it is only for one year. The other measure, and I think Councilman DiCicco is certainly correct at least in that bill, I have not seen anything that takes the tax out to 2018, but for Bill 767 has a much longer schedule but it lays out what those reductions would be on a year-by-year basis.

I'd like to get your perspective and certainly the perception by both the local, regional, if not national business community on the choice between a significant one-year, but one-year-only cut, versus longer term schedule.

MR. SCHWEIKER: The second.

COUNCILMAN NUTTER: I'm sorry?

MR. SCHWEIKER: I think they prefer 040767 is the Bill number.

COUNCILMAN NUTTER: Is that

primarily based on you at least know where things are going in a scheduled fashion?

MR. SCHWEIKER: I probably could not adequately voice the varied reactions on why they prefer it, but I do think -- in a moment I may ask Stu to comment, if I may, because he is a tax expert and specialist. That I think the certainty that is part and parcel of that model is encouraging to business people and investors. They know their costs and, more importantly, they know it's going down.

You're looking at someone, whether it's in another part of the country or in the region, my job is to sell the promise, so to speak, of the region and the City. When I can talk and say, "Well, the wage tax is going down, it is soon to experience a downward trend," it perks up interest. And likewise, if you can talk about the BPT ultimately disappearing and with the certainty that Council Bill 040767 exemplifies, then it's just attractive.

Stu, do you want to add something there?

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MR. WEINTRAUB: For the record, my name is Stuart Weintraub, and I am one of the co-chairs for the Chamber's State and Local Tax Committee. I would have to concur with Governor Schweiker just said. When I receive calls almost weekly from clients or perspective clients who are making business decisions on where to locate or expand their businesses and we start talking about the tax model in Pennsylvania, and when I tell them for Pennsylvania purposes the capital stock tax is being phased out over a specific schedule, they're very encouraged by that. When I tell them that in Philadelphia we have a specific taxes on track and people are talking about reducing the tax, the question I get is, "Well, how certain is it that it's going to happen?" And when I say, "I can't answer that because it still subject to this process and no one knows what will happen, I get very bad reactions from them. So the idea of certainty is a key component of a business person's decision of expanding or relocating the business.

MR. SCHWEIKER: Councilman Nutter, Mike Pearson is a business person.

MR. PEARSON: This is also an important issue small and mid-size businesses. As we expand and as we alluded to earlier, capital is an issue, you're doing a five-year pro forma projecting what your business is going to be like. Banks like certainty. Any funding source likes certainty. So if I can put together a plan and I can justify my expansion, which in my case may be another 40 or 50 jobs, the certainty of looking at a five-year projection and knowing what my costs are going to be, adds value to that proposal that I've just given to whatever banking representative I'm speaking to.

COUNCILMAN NUTTER: Thank you.

One last question. And if you don't have a complete response, certainly when you get back to the shop. One of the things that happened, I guess, about 12, 13 years ago, there was an effort by the Administration at that time to not only try to stabilize the City's finances -- we've come a long way and some of the these things do operate in a bit of a circular fashion. But in the early '90s, not only did we need to stabilize our finances -- obviously, we weren't talking about tax cuts. The City had just come off of a series of tax increases. But the opportunity to utilize additional expertise in looking at management efficiencies, productivity, opportunities, ways that have been shown not only to grow the revenues but cut the cost. Now, obviously, a significant part of the cost of government are in our personnel. And there's already been a significant amount of uncomfortable shake-up in that regard, but there are systems and processes and functions that we perform, and I wonder if the Chamber would at least entertain the prospect of working with us on identifying ways that we can either do things better or cheaper, not primarily on the personnel side, but in the cost of goods and services and how we spend the precious dollars that we have. Could you give us any thought or suggestions on how we might gain some of the expertise of people in the business community to help us on the business side of government?

MR. SCHWEIKER: Yes. You could consider it to be a standing commitment of the organization that I represent to provide the expertise, individuals, candidates for commission and advisory, whatever you want to call it, to help in the endeavor to make more efficient the operation of City government. I mean, there are any number of opportunities to make that connection, and there are a number of measured steps that could be considered. Some that I know have been discussed in this Chamber that certainly bring about the efficiencies that you cite, and I do believe would serve to lower the expense pressures that make it tough to balance current revenues with current expenditures; and we'd been glad to do that. We've got plenty of thoughts. I mean, I had someone stop me in the hallway here, "Hey, talk about overtime. Talk about overtime." So it's not our intention to speak at any length about that, but that was one of those some years back observers within government said couldn't be done, but I do believe aren't we down around 122 million, I think, is what we're coming out of this operating year with? It's a reduction from 136, and I say it not so much to squabble over numbers, I'm just saying that someone said it couldn't be done. It is being done.

COUNCILMAN NUTTER: And I think there have certainly been a number of efforts by this Administration to deal with overtime issues. And I think it should be stated at the same time for the record that in many instances or under certain situations it is beneficial to the City to pay overtime to a worker that is already on the workforce as opposed to bringing in additional people. There's an additional cost to having a new employee as opposed to paying overtime to the person that is there.

MR. SCHWEIKER: At times. It has to be discussed categorically. There are times when it makes sense.

COUNCILMAN NUTTER: So at times, overtime gets the highlighted negative attention, whereas from a management standpoint, sometimes overtime is a better use of the dollars in certain situations.

Thank you for the agreement to be supportive, and I'd like to follow-up with you on that.

MR. SCHWEIKER: Wonderful.

COUNCILMAN NUTTER: Thank you.

Thank you, Madam Chair.

COUNCIL PRESIDENT VERNA: You're welcome.

The Chair recognizes Councilman Kenney.

COUNCILMAN KENNEY: Thank you, Madam President.

Thank you for your testimony and for your continued diligence in addressing this issue year after year, and our successes have been largely in part of your help with framing the issue.

Part of the philosophical issue of this tax reduction in many ways for me is government will not, as Councilman Nutter has talked about, find the efficiencies, do things differently, try to reduce the cost of government unless in some ways they're forced to do it. And reducing the amount of revenue that the government, any government, has at is disposal to spend forces the hand of the government and the community together to figure out different ways of doing things and providing services. And that's why in some way it's frustrating to listen to testimony about the support now for reducing the gross receipts portion of the business privilege tax while at the same time requesting an increase in parking taxes so that we can continue to operate in a lifestyle we've become accustomed to. Businesses don't do it that way. And I understand that government has a much different mission than business. But it's still not antithetical for government to try to work in an efficient fashion as it is in business. We have other social service needs that we have to provide for and other issues we have to deal with. But if there's no tax base left and there's no opportunity to employ people -- and when I look at that chart, it's the most frightening chart of all. And while I recognize Chamber's need to market this region, and it is a jewel of a region and probably an untapped jewel of a region, there's this problem in the middle of it. And the problem in the middle of it is the one we face every day because when we're on the same list in the '90s, as Philadelphia and Detroit are the only two major cities in the country that lost net population in that decade. I don't want to be on that list. I like being on the list where the Cezanne exhibit, the three cities, Paris, London and Philadelphia. I like being on that list better. But unless we fix this tax issue and are forced to take the necessary steps to fix the government's efficiencies because we don't have any revenue to do anything else, it's the only way the government is going to change. And we need you guys to continue.

Here's what I'd like you guys to think about it. I was disappointed today from testimony from the Administration that in their tax revenue collection projection they put no factor in for job growth. None. So that the view we get in the testimony today was skewed by the fact that we're going to get less revenue in, we're going to be collecting less revenue in the next 5, 7, 10 years but never factored in any job growth at all. Is there some formula or some process that you could employ to try to project -- and I get it's not an exact science. That try to project what job growth there would be as a result of this incremental but definite yearly tax reduction?

Again, I'm not an economist. I'm not an academic. I don't really have the skills to do that and I don't think our staffs do either. But if is there some way to kind of counter the argument that this tax reduction and future tax reductions is simply continuing a negative result -- I don't think it's realistic it is a negative result. I think it's a positive result, but we need to have some type of figures to kind of bolster that philosophy.

MR. SCHWEIKER: I'm going to have

Stu comment in a second.

Is it possible to produce a dependable reference as far as job growth in the future? Yeah, we can do that.

COUNCILMAN KENNEY: I think it would juxtapose the testimony of the Administration that somehow what we're doing here is not in the best interest of growing jobs in the City. And I think it's wrong, their position. But I do think that we need something to quantify potentially what we're looking at if we take the steps that's being recommended.

MR. WEINTRAUB: Councilman Kenney, if I can just more particularly respond to your question. Two and a half years ago, the voters of Philadelphia approved an amendment to the Home Rule Charter that this Council passed creating a Tax Reform Commission I was privileged to sit as one of the Commission members on that Commission.

When we go to the report that we issued in November of 2003, it was either the second or third volume of that report -- I forget which one it was -- was included a report prepared by E Consult, a group that is well-known to this Council because this Council has used them in the past to provide this type of economic data in which they analyzed the proposals of the Tax Reform Commission and looked at the type of job growth that the recommendations of the Commission would generate. So E Consult has done that kind of an analysis and is already part of the Tax Reform Commission report.

COUNCILMAN KENNEY: Governor.

MR. SCHWEIKER: I would just say, as you began to amplify your question, what popped into mind was saying I saw on the wall halls of government by a budget director some years of some representations that said "Nothing stimulates the imagination like a good budget cut." So I think you make a fair point and probably voice the sentiments of an awful lot of people that they'd like to see more aggressiveness underlie the efforts to balance the budget and reduce taxes and want to take the prudent step that it requires to engender job growth, which I think is your point. So we'll take a stab at it.

You know, we certainly -- this is not a place for deep economic discussions. We don't have the time for that and I realize that, but --

COUNCILMAN KENNEY: Maybe it should be, though.

MR. SCHWEIKER: It always should be, not only because of the humanitarian dimensions of what a municipal government means to the well-being people but ultimately to the well-being of businesses and making sure that those people and residents have decent jobs and paychecks. That being said, I would only point to the chart just a few feet from Council President Verna's shoulder and see other than that stretch from '85 through about '89 this City is seeing decline in job growth after 1969. I don't think you need to be schooled in the Samuelson model of economics to know it's the wrong direction. And does anyone quarrel with the notion that there's a connection between an intimidating tax model and lack investment and a result in job growth? I don't think so.

COUNCILMAN KENNEY: There was today. I think some of the testimony today from the Administration was basically, you know, the only reason -- taxes are not the only reason that that line is going that way. But I think taxes is probably the primary reason the line is going that way.

MR. SCHWEIKER: You can quarrel over the factors, the loads of it as to what causing it, but the point is this is illustrative of economic decline. Now, we've got growth in some little, as Councilman DiCicco said, cottage industries and we're grateful for that. But we want to hold on to those firms. They get their shot here and are incubated, to use the fancy term, and then all of a sudden they see what it takes to be an ongoing business and they head north, south, east and west literally. And we want to keep them here, I think they want to do just that.

COUNCILMAN KENNEY: Just one comment on the parking tax. I liken the parking tax recommendation to what happens at SEPTA, that every time there's a fare increase, a certain segment of the SEPTA ridership decide that they no longer want to use the system and hop back in their cars. Every time we make it more inconvenient for people to come to the City and more aggravating, because there's nothing more aggravating than coming in the City, using one of our hospital facilities and being there two or three hours and come out and cost you $20 to park your car, to make that worse, to me, is absolutely nonsensical. And if you read Philadelphia Magazine and some of the other regional magazines, you see the growth of restaurant industry in the suburbs now. There are high-end, high-class, well-known restaurants, highly-rated restaurants in the surrounded counties growing every day with free parking. And whether that's coming in to a cultural event, coming on to a show, coming in to a restaurant, coming in to shop, which is hardly happening at all these days because of, again, free parking at the malls, to make it even more inconvenient and more aggravating for suburbanites and locals to come here with her car is just insane. And I see no benefit to it whatsoever other than allowing the government to continue living the life it's become accustomed to by cutting one tax and raising another.

MR. SCHWEIKER: Well, it's important that you hold that point of view. It is distressing. The math boils down to one tax versus another. And I won't labor any more what we believe is the downside associated with a higher parking tax.

You know regular folks, we all do, you don't like the idea that you park somewhere for 40 minutes and you're shelling out $25 and it could go higher, so not an attractive proposition.

I want you to know, though, and this is kind of my privilege and the fun of being the advocate for this region and City and its business interest, we still have a lot going for us, though. Plenty. The Barnes is coming here. And I just did an interview with a newspaper out of Paris. Because the Barnes in that collection is like visiting the Vatican to see the Pope for a very fervent Roman Catholic. They want to be there, they want to do it, they got to go. The same with the Barnes and people that appreciate art. But it isn't so much about appreciating culture, it is to say having the Barnes here is like two or three Super Bowls a year in terms of the people who come in and what they'll spend. So we've got a lot going for us.

I mention one other thing, too. You know, he can't be here, but the Cancer Treatment Centers of America, they bought the Parkview Hospital in Northeast Philadelphia. They're going to spend at least $15 million ramping up out there. And it says something about the research and talented people that they want to recruit and the people they have to serve and help live. But the fact they're coming here is a direct testament to an institution like the Fox Chase Cancer Center which is out there. So we do have magnetic aspects -- you know, it's not all about an unholy story of economic decline. We've got a lot of good going on. I think it's our job -- it's your job certainly to make the tough decisions when it comes to public budgeting. It's our job to, when we responsibly can, accent the positives.

By the way, I've got to go out to the Fairmount Park Commission because they are going to deal with at least the first turn on the Fox Chase Cancer Center today.

COUNCILMAN KENNEY: I thing there's four Nobel Prize winners there.

MR. SCHWEIKER: Is it four or two?

COUNCILMAN KENNEY: I think it's four.

MR. SCHWEIKER: That's big time. You know, we're going to be able to -- when the people come here on June 19th from that biotech world, you know, when we can say we're going to take you to the Wistar Institute near Penn's campus where the scourge of polio and rubella were stopped in its tracks, right here in Philadelphia, that community of professionals is fascinated by that. They want to be here. But our job is not just have it end at fascination, we want commitments, come here and do business here, employ our residents. That's part of our job.

And maybe you think it's Chamber speak, but sometimes we talk about the DNA of the region and the City residents changing to promote some of the stuff and be comfortable touting it because we are unique and we're a cut above. I think we deal with sometimes the propensity to be too negative and editorial pages that can't get ahold of themselves and want to keep on accenting the negatives. We've got plenty of positives.

Well, you've got some tough decisions to make. I do believe that we ought not to lose sight of at least one element that was emphasized here today, and that is the chart a few feet from Council Verna's shoulder. From 1969 to 2003, you see what's going on with job growth. Other than that stretch of years between '85 and '89, it's not good. And we can improve that.

COUNCIL PRESIDENT VERNA: The point of information.

The Chair recognizes Councilman Goode for a point of information.

COUNCILMAN GOODE: Thank you, Madam President. From '85 to '89?

MR. SCHWEIKER: I cane see it because it's far away from me, but it's right around then.

COUNCILMAN GOODE: That would be the Goode Administration.

Thank you, Madam President.

MR. SCHWEIKER: They said you were a good politician.

COUNCILMAN KENNEY: Thank you, Madam President.

COUNCIL PRESIDENT VERNA: Thank you.

The Chair recognizes Councilman Clarke.

COUNCILMAN CLARKE: Thank you, Madam President.

Good afternoon, gentlemen.

First to Mr. Pearson. I talked to earlier. For the record, until we can get a handle on this tax issue, we have a Keystone Opportunity Zone that will give you substantial incentives in my district, so if you're looking to relocate or expand your business, please give me a call and we'll make some land available to you.

Real briefly, Governor, I hadn't known your position prior to now on the parking tax. There's different degrees of opinions on that. And I'm still not sure what position I'll ultimately take. But the reality is I believe that we do need to do something with the business tax. Councilman Nutter and I actually brokered a little deal a year ago that never saw the light of day. Frankly speaking, in retrospect, had we done that, we would have addressed to some degree both the business and wage tax. But we're here now.

But the reality is, at least my reality, if we continue to reduce the business tax in an aggressive level, there will be some reduction in revenue as relates to the City's take. Some question the levels of supply side, but I think that we need to be in a position to have some additional revenue raised somewhere else. If you're not supportive of the parking tax, where would we get this additional revenue?

As nice a story that we'd be able to tell, I don't think people are just going to come into the City in droves to increase both our workforce and both the residents.

I know it's a long question, but frankly speaking, I was at a library opening this Saturday, a brand-new library in my district. We had fought for five years. And it was a great day, but around the perimeter of the people standing there, I had a bunch of people with signs complaining about cuts in libraries. So as an elected official, you have to deal with the aspect of taxes, but you also have to deal with the reality of people's lives.

Talk to me about how do we have enough revenue to provide reasonable service to people so I don't get beat over the head every time I go to a ceremony.

MR. SCHWEIKER: Well, there's not a pat answer. And I say it from the standpoint of someone who's got 23 budgets under his belt. I wasn't a legislator turned to Lieutenant Governor, become Governor. I was a municipal official, a county commissioner, and then eight budgets as Lieutenant Governor and Governor. And I've had to make the tough decisions and we've had some wonderful years too where it wasn't as tough. I certainly know there aren't pat answers. But I do know as far as the manifestation of new revenue from increased economic activity, that will unfold over the longer term. Case and point, when the Barnes begins to bring in people to this area, you're going to have tremendous increases in hotel room rentals and related collections and that kind of thing. In the short run, I do believe that I would be comfortable citing what is part and parcel of the Tax Reform Commission's work.

I think I mentioned overtime, not so much am I suggesting that's the only avenue for generating savings, but there are a number of steps. How you collect real estate taxes. The ultimate impact is --

COUNCILMAN CLARKE: You're talking about a hundred percent valuation?

MR. SCHWEIKER: Say that again.

COUNCILMAN CLARKE: Are you saying just collections or the hundred percent valuation?

MR. SCHWEIKER: No. Instead of the once a year effort, the quarterly.

But there are steps that can be taken. And with the will and I think the insistence of the Council they could be activated. I think it, in the short term, gives you some of the expense reductions to help you balance the budget.

COUNCILMAN CLARKE: Like what?

MR. SCHWEIKER: Well, I have to leave that one to you.

COUNCILMAN CLARKE: I'm not trying to put you on the spot because you're not the elected official; we are. It's our responsibility. But there's a certain reality out there. I have issues. On the list of things that now are on the chopping block in my district, but that's a reality. I need to be in a position to talk about increasing revenue somewhere in the short term to offset some of these reductions. I'm asking you -- you've given a lot of thought to the aspects of cutting the taxes, but I'm concern that I'm not hearing similar types of responses from the other side.

And actually, Councilman Nutter mentioned an issue about the Chamber. And I would, in fact, welcome that, participating in some sort of a forum. As a matter of fact, I introduced a bill last year to creat the Tax Reform COMMISSION implementation Program, and I got criticized by my friends in the Daily News Editorial Board for saying that it was simply an attempt to stop the tax reductions. But I genuinely thought that people need to sit down and talk about ways of implementing this particular program in a way that makes some sense for the City.

MR. SCHWEIKER: Well, I'll take a stab at one. And I do remember that editorial and I think their point of view was that -- I think they see the Council in tandem with the

Mayor being the implementer. That's another matter.

I think the more aggressive collection of fines and that kind of thing is an example that would generate -- do you know the particulars on that?

MR. WEINTRAUB: (Inaudible.)

COUNCIL PRESIDENT VERNA: I'm sorry, we can't hear you.

MR. WEINTRAUB: One section of the Commission report where we talked about certain proposals for replacing the revenue that would be lost by the tax reductions, one of the suggestions was increasing fines and collection and enforcement of fines. It wasn't any specific fine, it was just across the board. Many of the City fines are at well below what the statutory maximum would be for that.

COUNCILMAN CLARKE: Not to cut you off, but I think we just got authorization from the State to increase one of the --

MR. WEINTRAUB: There were a number of fines that were in like the $25 range and statutory maximum might be 300 at fines could be increased. The City gave the Commission a projection that by increasing fines, they would collect 2 to $5 million additional per year, which over the Five-Year Plan is 10 to $25 million over the life of the Five-Year Plan. Again, one recommendation.

There was another idea that was fostered at the time about increased collection of delinquencies. The Commission talked about increasing collections by 1 percent point. The Commissioner told us that they were collecting like 90 to 93 percent of the taxes due in the first year. So the Commission if we increased that by one percentage point and collect 91 to 94 percent each year, that's $20 million a year that you're collecting additional revenue, which over the life of the Five-Year Plan is a hundred million dollars. That goes a long way to funding tax reform.

COUNCILMAN CLARKE: And didn't they also recommend parking tax?

MR. WEINTRAUB: The parking tax was

one of the items that was listed there, not as a recommendation -- we did not make recommendations on these issues. We gave a laundry list of potential sources. It was one of the items that was on that laundry list of potential sources. It was not a recommendation that it be raised.

COUNCILMAN CLARKE: There were all just lists of sources.

MR. WEINTRAUB: Just a whole laundry list of potential sources of replacement revenue.

MR. SCHWEIKER: It comes down to this often: Where there's a will, there's a way.

COUNCILMAN CLARKE: I know there's a way. Again, I begged to get elected, so I'm not by any way trying to shift the focus from my responsibility, but I do have a real world situation where I'm dealing with facilities that are being closed and are going to be closed this year. I need to be in a position to adequately deal with those people because they, in fact, did vote for me so I feel some level of responsibility.

I just want to say this, that while I personally take this issue very seriously, I actually have a bill in the hopper today that talks about an abatement on gross receipts for new businesses that I think, frankly speaking, makes a lot of sense. We had a very successful program. I think Councilman DiCicco actually sponsored the original tax abatement bill on real estate, and that's kind of what's keeping us alive as it relates to the transfer tax --

MR. SCHWEIKER: The abatement on the BPT?

COUNCILMAN CLARKE: On gross receipts. And I think that it makes some sense to look at that particular program, particularly as it relates to new businesses because new businesses traditionally have a very difficult time the first couple of years. And the cost to the City, I'm not sure. We had earlier testimony, and the City's people gave the worst case scenario. But I think that the likelihood that if people understand it, most people concur the gross receipts and also believe the other business taxes are very onerous that if a person says, "Well, I don't have to pay this," and I've got to make a decision as to whether to go into the City of Philadelphia or whether to go outside, I may opt to go to Philadelphia so I think it will enhance the chances of us getting more business here and ultimately collecting that revenue down the line as we wind down on the longer term solution.

MR. SCHWEIKER: Let me say that it's music to the proverbial ears to hear that there is talk of a lighter tax burden for business people. I do have some concerns about that concept because if you stop and consider for a moment that 70 percent of the new jobs come from existing firms, would they benefit from that break? As defined now, no. And they're -- it's existing firms growing that's 70 percent of the action. It follows with Select Greater Philadelphia. You know, our effort is not to just tell the world now attractive we are external to the region, we've got to be courting romancing the existing firms in the City and region to make the decision to grow here.

COUNCILMAN CLARKE: I understand.

MR. SCHWEIKER: With that understanding, that's what concerns us there. Will that really lead to job growth? Because with the firms that may come in anew with a City address, they get the break. That's only 30 percent of the action.

COUNCILMAN CLARKE: I understand that. And similarly, the people who are building new houses are getting tax breaks and people who live in neighborhoods are not getting those tax breaks but we're not stopping that process, we're continuing to give 100 percent 10-year abatements. And I don't think anybody at this point is suggesting that we stop that because of the success we've had. But we're not -- at least I'm not talking about eliminating the small reductions on business privilege taxes that we're currently having. There's some possibility of accelerating them. I'm not talking about stopping one and creating another. I'm talking about in addition to what we're currently doing and what's being proposed to some degree, because I don't know where I'm going to shake out on the income tax bills. But creating an environment for new businesses, because at the end of the day, I think that our ability to create new businesses ultimately end up creating additional jobs. I think most people agree with that. And then we can truly get an accurate depiction of just how important this gross receipts elimination is.

MR. SCHWEIKER: Well, we hope to work with you on that. I would just, again, say that I think more a attractive tax model, lower taxes over time is going to create more activity and the prospect of the small businesses in the neighborhoods and jobs than anything we do for these crafted tax-type of inducements, and that's why we wanted to use the illustrations today. I think it will pay off. And some day perhaps your son, Councilman Clarke --

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COUNCILMAN CLARKE: I have a daughter.

MR. SCHWEIKER: Well, your daughter then. Your daughter will sit here as Councilwoman Clarke or whatever ultimately would be her married name and look at that chart and say, "Yeah, this Council in the spring of 2005 had the moxie, along the with the Mayor, to put in place a tax model that lead to that blue line just heading up and up. And in 2045, a whole different picture." I believe it can happen.

COUNCILMAN CLARKE: I look forward to her being able to talk about it but no way in the world will I allow her to be a Councilperson. No way.

(Laughter.)

COUNCILMAN CLARKE: Thank you.

MR. SCHWEIKER: You're welcome.

COUNCIL PRESIDENT VERNA: And just a follow-up on what was said, I believe that rather recently we did increase license fees and also fines. I believe, Mr. Governor, last year we were having the same conversation, and at that time we indicated we really would appreciate if the Chamber would work along with us so that we could come up with more clever ideas on how we could generate more revenue. Sad to say that never happened, but I do hope that in the very near future many of us could sit down and see what direction we could go to make the City a much better place to live and to work and rear our children.

Thank you so much, gentlemen. I appreciate your coming in.

Again, I would like to reiterate what the ground rules are. I'm sure everybody's going to say, "Well, the first panel certainly had more than 15 minutes. But we are talking about the former Governor and Chamber of Commerce.

The ground rules again I will repeat, five minutes for an individual, 15 minutes will be allotted to a panel.

Our next witness.

MR. MCPHERSON: The next witness is a panel of six. Brett Mandel, Ken Nealy, Sister Aisamah Mohammad, Rodney Carson, Ed

Wright, and Claudia Post.

COUNCIL PRESIDENT VERNA: And immediately after this panel will be?

MR. MCPHERSON: Robert Zuretsky and two associates from the Philadelphia Parking Association.

COUNCIL PRESIDENT VERNA: And if they could just move forward so we don't have to wait for people to approach the witness table, I think that will be helpful.

Mr. Mandel, good afternoon.

MR. MANDEL: Good afternoon. I have some testimony if the Sergeant-at-Arms wants it.

Madam President and Members of City Council, thank you for providing this forum to discuss Bill 040767, legislation to phase out the job-killing business privilege tax. I am Brett Mandel, Executive Director of Philadelphia Forward. And with me today are a number of individuals who can speak of their experience with this awful levy. In fact, we are surrounded with them. I will condense my remarks because you have certainly heard from me before.

A crucial part of the Tax Reform Commission's plan is the phase out of the job-killing business privilege tax to improve the City's ability to attract and retain businesses. Quite simply, eliminating the business privilege tax is an issue of survival for Philadelphia's small and growing businesses. You don't need to hear all this again from me, so I'll read you a few Tax Reform stories that Philadelphia Forward has collected and are available for you on our Web site, philadelphiaforward.org, and I will present a number of people who can provide their firsthand experience with the business privilege tax better than policy wonks economists ever could.

One responder wrote to Philadelphia Forward, "My employer's offices are in Radnor. I live in the City and would love to work in the City too. In a conversation with the owner, I found out why he was reluctant to move his business into the City. Taxes. His small business can't afford to pay the wage tax plus the gross receipts tax plus the business privilege tax. He loves the City and would be happy to be in a location more convenient to transportation and in a bustling urban environment, but the tax burden imposed by the City is keeping this small professional consulting firm out of Philadelphia."

Another wrote, "I have been exploring starting a new business, but the BPT is a killer. A friend of mine who is a financial planner advised me to move out of the city completely and start my business in the suburbs."

And in fact, as a late entry, there was a young woman sitting over in the corner who I would like to ask the stand up. She is here to advocate on behalf of eliminating the business privilege tax because her baker who apparently makes the bread pudding in the City is threatening to move out of the City because of taxes. She came to support her baker.

COUNCIL PRESIDENT VERNA: Welcome.

MR. MANDEL: Had the City not lost more than 10,000 jobs last year, those jobs would not only have meant food on the table for 10,000 families and vitality in the community for neighborhoods across the City, those jobs would have meant 20 more million dollars in wage tax revenues for City that could be spent on expanding City services.

In reviewing the Tax Reform Commission's report, the Mayor's handpicked transition team, the 21st Century Review Forum declared, "The City should move quickly to adopt the major recommendations of the Tax Reform Commission. The Mayor's very important quality of life strategies will not have the desired impacts or be sustainable in the long run in the absence of fundamental tax reform. Some will question whether the City can afford significant tax reform at this time, but that is the wrong question. Rather we should ask how can we not afford to reform taxes now."

I could not have said it better myself. The Tax Reform Commission estimates that its recommendations will mean 47,000 jobs for Philadelphia by 2010. If there's another plan on the table to grow 47,000 jobs in the coming years, let's debate its merits. But we cannot accept the excuse that we cannot afford to enact the tax reform package. Truly, we cannot afford not to do it.

We urge you to pass Bill 040767 and reject half measures that are just not tax reform. If Philadelphia is to move forward as a City, it must break with policies that hold it back. Today, taxes hold Philadelphia back. Tomorrow, tax reform can move Philadelphia forward.

Now, Philadelphia Forward is pleased to present some business people who must cope with this job killing business privilege tax every day.

MR. DEFINO: Madam President, Members of City Council, thank you for the opportunity to discuss 040767 and the elimination of the job-killing business privilege tax. I'm Vincent Anthony DeFino and I am the President of the South Philadelphia Business Association. I'm here on behalf of my 150 members, and growing, all small business owners. I come before you today along with Edward J. Wright, our Executive Director on behalf of our executive board and membership and in partnership with the Philadelphia Forward in support of Bill No. 040767 for elimination of the City of Philadelphia's business privilege tax.

As you are all aware, the business privilege tax, along with other business-related tax issues, are placing the future of the small business owner in Philadelphia in serious jeopardy. Philadelphia's business taxes create a hostile environment and unfair burden for small business owners. The working men and women have invested their valuable time, their hard-earned money and tireless efforts in the tradition of operating a small business. Due to the current business tax structure, they are facing a difficult choice to either abandon their dreams or flee to the suburbs and rival cities to livelihood. We must remove these competitive disadvantages for all business owners in our great City.

The elimination of the business

privilege tax along with the implementation of other recommendations of the Tax Reform Commission will enable the economically depressed business corridors throughout Philadelphia the opportunity to survive, grow and prosper. When these economically distressed business corridors are strengthened, the surrounding residential neighborhoods grow stronger.

The South Philadelphia Business Association has every confidence that the members of this City Council have the knowledge, the skill and the political courage to make the tough choices that will benefit the citizens of Philadelphia and its future generations.

The South Philadelphia Business Association and the community at-large enjoy outstanding representation and leadership from our Council President and Anna C. Verna, Councilman Frank DiCicco, Councilman Jim Kenney and Councilman Frank Rizzo. They are always responsive to our business and community needs.

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Today, we call on our neighboring District Councilwoman Jannie Blackwell, Councilman Rick Mariano, Councilman Darrell Clarke, Councilman Wilson Goode, Jr., Councilman Juan Ramos and all Members of the City Council to collectively lead Philadelphia into a position wherein we are fiscally competitive and able to maintain our business space and attract new jobs to the birth place of this nation, our great and beloved City of Philadelphia. We are counting on all of you to pass Bill No. 040767 and begin to eliminate the job-killing business privilege tax. The South Philadelphia Business Association feels that its confidence in all of City Council is well placed.

I'd like to submit for the record letters of support to City Council from a sampling of our membership. And I thank you for the opportunity to address you today and all your efforts on behalf of the citizens of Philadelphia. Thank you.

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

Our next witness.

MS. MOHAMMAD: Good afternoon, Madam Chair representing Council. I testify today representing participating small businesses housed in the West Philadelphia Lancaster Avenue Business District. I am Sister Aisamah Mohammad. And I thank you for the opportunity to speak on behalf of a collaboration of businesses united by one voice, one strength, one association. The Lancaster Avenue Business Association East and West Community Development Corporation. This business district encompasses a section of the Council District 3 and District 4.

We, the concerned businesses of this district, urge you to eliminate the business privilege tax by supporting Bill 040767. While the issue of tax reform may raise questions of supply side economics or budgetary choices for some, tax reform is nothing less than an issue of survival for our businesses. In respect for diversity and change, we are struggling with the challenge to restore the character to a business district hit hard by cultural transitioning through decades of neglect that has left this West Philadelphia community at-large economically distressed. And as much as the small businesses in this area strive to embrace the community's need, working collectively to address the revitalization and community development concerns necessary for the betterment of economic strengthening, tax reform can't be all for some and none for all. Giving tax breaks incentives and sweetheart deals to fat cats all by imposing the nation's highest local business tax burden on neighborhood businesses.

While striving to meet the demands of maintaining and operating a productive business under such demanding conditions places survival as a priority, causing major distractions when having to deal with the other multitude of problems that plague our business and residential communities, such as creating cleaning streets and increasing security for our businesses, enhancing the quality of life for us as a whole. The business privilege tax threatens our ability to invest in the community, hire local workers, start new businesses and grow.

In as much as the business privilege tax threatens businesses across Philadelphia, we embrace this bill personally based on the hindering process our businesses have endured by this tax throughout the years, whether we are making a profit or not. This tax causes businesses to close or simply leave the City to reduce costs.

A majority of our businesses along this corridor has maintained longevity because this is the area we have selected to grow our businesses. Unfortunately, this tax hurts the ability to start new businesses and yet we ask to encourage new businesses to join our communities. Why? Because our communities will thrive if it can develop, revitalize valued residential properties and nurture and grow new businesses. However, we cannot grow jobs in the neighborhoods if this tax continues to penalize our efforts. We understand that the City faces budgetary stress today, but without tax reform, jobs and neighbors will continue to leave Philadelphia.

We, the people, need you to rethink your positions on this issue in support of small businesses that help to stabilize the economy of this City. I repeat, we, the people, ask you to rethink your positions on this issue to support the small businesses that help to stabilize the economy of this City. We, the very people who have he elected that you support or best interest as we agree with the Mayor's 21st Century Review Forum Transition Team which declared the Mayor's very important quality of life strategies will not have the desired impacts to be sustainable in the long run in the absence of fundamental tax reform.

The recommendations of the Tax Reform Commission represent a true plan for change that must be prerequisite for the implementation of other initiatives. The time for study is over. The time for action is now.

We, the businesses of the Lancaster

Avenue Business District of West Philadelphia, are trying to survive this economic crunch and ask that you support our efforts to assist in the process of recycling community dollars back into our very communities. If we could save the money, we would invest in improving our properties, hiring neighborhood residents and building other businesses to grow in Philadelphia.

We ask you, please, adopt the recommendation of the Tax Reform Commission. Vote to pass Bill 040767. Vote to pass Bill 040767 and phase out the business privilege tax. Thank you.

COUNCIL PRESIDENT VERNA: Thank you.

Our next witness.

MR. TAUBENBERGER: My name is Al Taubenberger. And Madam President, thank you very much for giving me the opportunity. I'm the president of the Greater Northeast Philadelphia Chamber of Commerce. We are a private business association of over 900 members dedicated to the success of our community, our membership and the free enterprise system. We represent businesses from Augustus Aerospace, manufacturer of helicopters in Northeast Philadelphia to Zack's Bakery which is a local neighborhood bakery on Rising Sun Avenue. They all have a problem with the business privilege tax. It's burdensome, it's cumbersome, and it doesn't enhance business. Most interesting, though, I've looked at some statistics in our own association. When I took over as President in 1992, out of our membership we had 60 members that resided their business outside the City of Philadelphia and surrounding suburbs. In the year 2000, we had 180 business. It still had an interest in Northeast Philadelphia. Still, members of the Northeast Philadelphia Chamber of Commerce, but these 180 businesses had their offices in Bucks County and Montgomery County and New Jersey. In the year 2005, we have 202 members that are now outside the City of Philadelphia, yet have interest in doing business in Northeast Philadelphia and consider it a good place to do business, but they do not want to be burdened with a tax burden that comes with a Philadelphia address. That represents about one-fifth of our address. And being the head of the Chamber of Commerce, we're not restricted to political boundaries so we were able to maintain their membership. But the fact of the matter is that these 202 businesses no longer pay their taxes into the City of Philadelphia; they pay them to Montgomery County, to Bucks County and to various counties in New Jersey.

In 2003, I was honored and privileged to serve on the Tax Reform Commission as Vice Chairman. We very clearly spelled out some action items that needed to be taken, and recommendation No. 23 is the increment elimination business tax. Found on Page 61 of that report, simply put, elimination of the business privilege tax promotes greater tax systems simplicity not only with the reform decrease, the Department of Revenue's workload enabling the Department to more aggressively enforce other taxes but will also simplify the process of running a business in Philadelphia. And that's something we must do. It has to become simple and Philadelphia must be open to do business and simplifying the tax code is the first step. I urge the elimination of the business privilege tax. Thank you very much for your time.

COUNCIL PRESIDENT VERNA: You're welcome.

Please identify yourself for the record.

MS. GAIN: My name is Karen Gain and I'm here on behalf of Roger Harmon who is the owner of a restaurant on 47th Street in West Philadelphia. The reason I'm here and not Robert is because he's a small business owner, he woke up this morning, the deliveryman wasn't going to be able to come in so he got behind the wheel and took the sandwiches to the other restaurants that they serve. That's the margin that the small businesses live on. And one reason I was picked to come for him is that four years ago when the Redevelopment Authority was deciding who should develop the parcel that they're on, a group of neighbors got together and really supported the building of a restaurant there for two reasons: One is that all the other candidates were very worthy non-profit organizations and we wanted to change the balance, improve the balance to have more for-profit companies in the area. The other was that we wanted the amenities that they provide that help us live in the neighborhood better. We are very proud to be near Penn and Drexel and sciences, but when we want a cleaners to walk to or a restaurant that is our neighborhood place, it's not going to come from the non-profit sector. It's going to come from some people who put up their money, their time and all their energy to make a place for us. And they live by the thinnest thread that something like this tax can almost tip the balance between building something and just standing still and waiting for the possibility of going in the other direction. So I want to read Roger's statement. You'll have to imagine the beard.

COUNCIL PRESIDENT VERNA: Is that a typed statement.

MS. GAIN: Yes, it is.

COUNCIL PRESIDENT VERNA: If you don't mind, if you'll submit it to the Chair, we will make copies of that for the record.

MS. GAIN: I have 25.

COUNCIL PRESIDENT VERNA: Oh, wonderful. We will give a copy to stenographer. Every Council will receive a copy, and it will be made part of the record. Thank you so much.

MS. FRISBE: Good afternoon. My name Jesse Frisbe (ph), and I'm here representing South Street West Business Association, which is located on South Street west of Broad. President Anna Verna is our Councilperson and has worked very hard with us to develop west of Broad on South Street. We have loss a lot of the businesses on South Street. And before I go any further, I really wasn't prepared to testify, but I echo the same sentiments of the other speakers. I have a business on South Street and I have struggled on South Street for 36 years to survive there. While we see new people coming in and getting real estate breaks and we're not getting any breaks, as business people who have gone through the storm, we need as much tax reform as we can get.

I mean, there's people building buildings for $500,000, and they are not paying taxes for 10 years. And I hear you ask, "Where can we get money? What can we do?" You can tax those people instead of making us continue to carry the burden. We have not gotten any tax breaks. And I can tell you firsthand because I'm there and I've been there longer than most of the people who've been there. I've carried the burden of taxes. I cannot afford anymore taxes. I cannot afford to bring people in and employ them. What I have to do is get family members to come in to help us.

We want to expand. We want to grow. We want to give neighbors jobs. When you bring your big corporations in, they do not hire people in the communities. They bring their people in. Small businesses has always built this country and small business will always be the base for business in this City. So I urgently ask you to consider the reform of the business privilege tax. Thank you.

COUNCIL PRESIDENT VERNA: Thank you.

And I would just like to add what Ms. Frisbe has just said. I have known her for a long time. And believe me, she struggled to keep her business surviving on South Street. When most of the businesses -- buildings were vacant. And believe it or not, there wasn't even ample street lighting, but she was determined and she stayed in business. And I do hope that your business is really being very successful now because you have been very determined, and I applaud you for all that you have done.

(Applause.)

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

COUNCILMAN GOODE: Thank you, Madam President.

Good afternoon Mr. Mandel.

How many recommendations were made by the Tax Reform Commission?

MR. MANDEL: There were 28 formal recommendations encompassed in pieces of legislation.

COUNCILMAN GOODE: There were 13 pieces of legislation?

In your original testimony on behalf of that legislation, those 13 pieces, you said to us as a Council that all 13 had to be considered and passed together or else they would not work. Do you still hold by that.

MR. MANDEL: The package as considered by the Tax Reform Commission was considered as a package to have the best benefit. We certainly think that they should all implemented. There will be a giving up of some benefit if you implement some but not others.

COUNCILMAN GOODE: So you move from 13 bills down to 3 bills and then more recently moved down to 2 bills. Have you updated your econometric analysis?

MR. MANDEL: I have not done any of the analysis. E Consult provided that service for the Tax Reform Commission. I will certainly clarify that I haven't changed in my advocacy for the entire package.

COUNCILMAN GOODE: But the E Consult analysis is based upon the 28 recommendations and 13 bills; is that correct?

MR. MANDEL: Actually, the E Consult econometrics were only based on 2 of the changes. E Consult could only model the reductions in the wage tax and the reductions in the gross receipts tax. E Consult was never able to model any of the reductions in the net income tax or the other changes because, frankly, there just isn't data available to make the econometric analysis. So whenever the E Consult numbers were trotted out, I would always be quick to remind people, that's very conservative. They could not figure in the impact of the net income tax elimination. They could not figure into their analysis the implementation of single factor apportionment or the shift to land value taxation.

COUNCILMAN GOODE: So let me ask you the same question I asked the Administration this morning.

What is the economic impact of the bill that you're supporting in terms of how many businesses and jobs it will create.

MR. MANDEL: I believe that E Consult actually did formal analysis for City Council on this piece of legislation. Is that correct?

I know that if you look at the third volume of the Tax Reform Commission, it outlines the benefit.

COUNCILMAN GOODE: Can you state for me today what the economic impact of the bill you came to support is in terms of how many businesses it will create and how many jobs it will create?

MR. MANDEL: I cannot. I would refer you to the E Consult work that was done for City Council.

MR. TAUBENBERGER: May I answer that as well or give you my version of that? I'm not going to say I'm going to answer it in its entirety to the satisfaction of the Councilman. But I'd like to say that it's almost like when you want to sell a piece of property. You really don't know what that property is worth until buyer and seller get together. To spend a lot of time and say, "What will this bring," well, I'll tell you what it won't bring. It's losing jobs every single day. Look at the statistics very simply put that I had with my membership.

COUNCILMAN GOODE: Excuse me.

MR. TAUBENBERGER: Let me finish. It will only take a minute.

COUNCILMAN GOODE: I have a limit on my time.

MR. TAUBENBERGER: I'll be really quick.

COUNCIL PRESIDENT VERNA: I think the Councilman is trying to ask a question.

Councilman.

COUNCILMAN GOODE: My question was simply, do you have hard numbers in terms of businesses and jobs that will created?

That's a yes or no question.

MR. MANDEL: For this particular bill, no. For the Tax Reform Commission, yes.

COUNCILMAN GOODE: Next question is, do we need to eliminate the net income tax to be economically competitive.

MR. MANDEL: I would echo the comments of Governor Schweiker. If you look -- the gross receipts tax, it's not uncommon for local jurisdictions to tax gross receipts. It is not common at all -- in fact, it's almost unheard of to tax net income at the local level. It's totally unheard of to do what Philadelphia does and tax both.

You would ask the question of, At what point do we become competitive?

COUNCILMAN GOODE: That's my question.

MR. MANDEL: Certainly, we are competitive for some businesses now. There are still thousands upon thousands of employers, a million and a half residents who think that it's beneficial to be Philadelphia now. I'm sitting here with many of them.

COUNCILMAN GOODE: Let me ask the third when question I asked Governor.

In terms of small businesses owned

by minorities and women, what is the biggest obstacle? Is it the tax burden. Was it actual racial, gender geographic discrimination in terms of small business lending.

MR. MANDEL: I'll defer that question to the people here.

COUNCILMAN GOODE: That's interesting.

MS. MOHAMMAD: If it's okay, I believe as a minority and as a woman, what we have been subjected to primarily is the tax burden. And the opportunities that are absolutely available are made available for us to be able to open new businesses. The potential of Philadelphia stands firm in that I've lived here all of my life.

COUNCILMAN GOODE: Excuse me, Ms. Mohammad. My question is what is the bigger obstacle? Is it the tax burden? And I'm not asking you the question as a minority or a woman. No one's asking Brett Mandel a question as a white male. I'm asking in terms of Philadelphia, in terms of obstacles faced by businesses owned by minorities and women, what is the bigger obstacle? Is it tax burden or is it --

MS. MOHAMMAD: Tax burden. I would surmise tax burden.

COUNCILMAN GOODE: And what analysis did you do to come to that conclusion?

MS. MOHAMMAD: Generally just based on -- realistically, I cannot give you direct figures, sir.

COUNCILMAN GOODE: What analysis did you do to come to conclusion?

MS. MOHAMMAD: I've come to that based on communication with some of our business constituents along the business corridor and other business entrepreneurs who are seeking business.

COUNCILMAN GOODE: Let me ask you a question. I wasn't going to go here, but I will. When is the last time Lancaster Avenue Business Association had an election?

MS. MOHAMMAD: How long we had an election?

COUNCILMAN GOODE: When is the last

time you had elections?

MS. MOHAMMAD: We had elections, sir, within the last several months. But with respect to that --

COUNCILMAN GOODE: How many people are members? How many are dues-paying members and how many people voted?

MS. MOHAMMAD: May I ask what that has to do primarily with the support of the fact that the participating businesses that are active on the corridor do support this bill and that this review has been covered by --

COUNCILMAN GOODE: I am extremely familiar with the Lancaster Avenue Business Association and the fact it has not been a legitimate business association for several years, does not hold routine elections.

MS. MOHAMMAD: Sir, that's not true, sir. If you would like, at any time we'd be more than willing to come to your table to discuss this at your office at any time.

COUNCILMAN GOODE: My last question for Mr. Mandel. Has Philadelphia Forward come up with any economic development strategy or comprehensive economic development strategy beyond elimination of the BPT?

MR. MANDEL: Have we done any new --

COUNCILMAN GOODE: Do you have any economic development strategy that's comprehensive in nature beyond eliminating the BPT?

MR. MANDEL: We certainly have not provided any additional analysis to this beyond the work of the Tax Reform Commission.

COUNCILMAN GOODE: Do you have any economic development policy or strategy that's comprehensive in nature beyond elimination of BPT?

MR. MANDEL: An we don't just support the elimination of the business privilege tax. We're promoting all of the recommendations.

COUNCILMAN GOODE: What other formal economic development policy do you actually support, have documented, promote beyond elimination of BPT? Was your economic development strategy limited to elimination of

BPT?

MR. MANDEL: No, our support is in embrace of the full package of recommendations of the Tax Reform Commission.

COUNCILMAN GOODE: Beyond tax reform policy, what do you think the City of Philadelphia should be doing in terms of economic development.

MR. MANDEL: Beyond that, Philadelphia Forward has no formal position.

COUNCILMAN GOODE: Thank you.

To Ms. Frisbe and to Ms. Mohammad again. Part of what Philadelphia Forward has advocated against is tax credits going to community development corporations for community-based economic development. Do you share that policy position?

MR. MANDEL: I would actually correct you. Philadelphia Forward has no position on that.

COUNCILMAN GOODE: You don't address business tax credits for contributions to community development corporations?

MR. MANDEL: Philadelphia Forward is

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supporting the recommendations of the Tax Reform Commission and has not taken a position on --

COUNCILMAN GOODE: You've taken a position both on your Web site and the materials distributed here today.

MR. MANDEL: That says we support the work of the Tax Reform Commission.

COUNCILMAN GOODE: You can tell me specifically your position on business tax credits for contributions to community development corporations for economic development purposes. You can tell me your position.

MR. MANDEL: We have no position.

COUNCILMAN GOODE: Then why do you mention it in your material, in your propaganda?

MR. MANDEL: I believe what you're referring to is we're saying that tax reform shouldn't be all for some and none for all.

COUNCILMAN GOODE: But shouldn't we be doing business privilege tax credits to support community-based economic development, for instance, to support SOSNA in their work on South Street West worse and Universal around that area, and for instance support People's Emergency Center CDC ON Lancaster?

MR. MANDEL: We have no position pro or con.

COUNCILMAN GOODE: But you brought people from South Street West and Lancaster Avenue, but at the same time you have spoken against business privilege tax credits to support the work of CDCs in those particular areas.

MR. MANDEL: I would clarify. We haven't spoken against them. We have said that we shouldn't limit our economic development policies for some, we should extend to all.

COUNCILMAN GOODE: You should clarify that position in your propaganda then.

MR. MANDEL: I will certainly take a look at that.

COUNCILMAN GOODE: Thank you.

MS. FRISBE: I'd like to say that South Street West SOSNA are two different organizations. South Street West is a business association. SOSNA is South of South Street Neighborhood Association after social. They're not two of the same.

COUNCILMAN GOODE: I fully understand that. SOSNA has a tax credit partnership to support South Street West.

MS. FRISBE: Well, they're asking us for your support, so is Universal.

COUNCILMAN GOODE: No, no. They have a tax credit partnership to support development of that commercial corridor.

MS. FRISBE: My understanding is that will start from the market on Grays Ferry Avenue and they have a hundred thousand dollars which will never come to South Street. With a hundred thousand dollars, they have asked us to partnership with them.

COUNCILMAN GOODE: It's a million dollars. And Ms. Frisbe, you should do a little bit more research on it.

MS. FRISBE: They did have a meeting last night and the person with me was here but couldn't stay. I was not at the meeting. But they have asked us if we would partner with them and so has Universal.

COUNCILMAN GOODE: That's not what I'm referring to.

Thank you, Madam Chair.

MS. FRISBE: I'll find out.

COUNCILWOMAN BLACKWELL: Thank you, Councilman, for your remarks.

Next is Councilman Kenney.

And we would note for Philadelphia Forward that it is great -- obviously, as a City-wide organization, you can invite whom you choose, but those of us who are District Councilpeople know our area, know what's going on and the community organizations and where they stand and whether or not they speak for the entire community and whether they do not. So we just ask you to keep that in mind and thank Councilman Goode for his remarks.

Councilman Kenney.

COUNCILMAN KENNEY: Thank you, Madam Chair.

Just quickly. I think a lot of times this issue is framed in regards to the

Chamber of Commerce, the big Chamber's position on issues and larger-sized businesses. But I think it's important to note that at the table a very diverse group of people all over the City. And even though they only speak for their own individual business associations, it's nice to see that middle class working people who are business people in the City also support tax reform and tax reduction and it's not just the Market Street businesses and the Chestnut Street businesses and the businesses in Center City. There are businesses in the neighborhoods that feel that this kind of help in a marginal business like they have would be a bigger help to them than some of the tax breaks we've given larger companies.

COUNCILWOMAN BLACKWELL: I can only speak for my area when I say that when I associate with the comments from my colleague. That's why I said Philadelphia Forward should see if in fact the business associations they choose do speak for the group. In our instance, it does not.

COUNCILMAN KENNEY: I understand. I'm just saying as far the diversity of the panel and from the areas of the City that they've come from, from the Northeast to Southwest, West Philly, South Philly, I think it's a nice mix of opinion. Even if they're only speaking for themselves, they're still citizens and business people. I think it's important that this issue be framed not just with the large companies and the Chamber of Commerce, but with small business people also. So I thank them for coming.

COUNCILWOMAN BLACKWELL: Thank you.

Councilman Kelly.

COUNCILMAN KELLY: Thank you, Madam Chair.

I just have a question Mr. Taubenberger, if I may. Being from Northeast Philadelphia, I certainly was enlightened by your testimony in which you stated that over 200 businesses, members of your Chamber, have moved to the suburbs, have moved to New Jersey, Montgomery and Bucks County. What time frame is that? Is that over five years or --

MR. TAUBENBERGER: Councilman, that is from 1992 to present, so it's a little over 10 years. Twelve years, actually.

COUNCILMAN KELLY: How many employees would you say that would effect. In other words of those companies that moved out, how many employees are we talking about that are now working in the suburbs?

MR. TAUBENBERGER: I would say a good 800 all added up.

COUNCILMAN KELLY: Madam Chair, this is one of the reasons why I asked the Administration today of how many businesses actually have left Philadelphia within the last five years and how many new businesses have come into Philadelphia over the last five years. I think somewhere along the line I think that the numbers will indicate that more businesses are leaving Philadelphia than coming in. I think that doing nothing is just going, I think, expedite more of them leaving the City than coming back.

I think Councilman Kenney mentioned

earlier that Philadelphia and Detroit are the only two major cities in this country have been losing population and businesses over the last 10 years. I think we must do something to stem the tide, and I think we want to get on the right side of this issue.

I want to thank everyone here for coming in and testifying and maybe, just maybe, we'll be doing something this year.

Thank you, Madam Chair.

COUNCILWOMAN BLACKWELL: Thank you, Councilman.

MR. TAUBENBERGER: Madam Chair, I just have one sentence to summarize.

COUNCILWOMAN BLACKWELL: Yes.

MR. TAUBENBERGER: Much emphasis has been put on what jobs will be created by passing or eliminating the business privilege tax. And I believe not enough emphasis has been put on the simple statistics of the jobs and companies that are leaving, which I think are much more important. We need to stop that. Thank you.

COUNCILWOMAN BLACKWELL: Thank you.

Councilwoman Blondell Reynolds Brown.

COUNCILWOMAN BROWN: Thank you, Madam Chair.

I think it's important that we remember the context of our discussion and the recognition of the fact that this Administration is already engaged in reduction of taxes across the board. And part of the debate are steeper and deeper business privilege tax cuts and what that means for the City.

With that said, my first question to Mr. Mandel is as follows:

The Tax Reform Commission indicated that eliminating the business privilege tax will require increases in other tax revenues and estimated that property values and property taxes would rise somewhere between 40 and 50 percent. Property taxes could increase by as much as 8 to 10 percent a year. Please share with us whether or not a reduction in business taxes ultimately moves to a shift of the tax burden on a residential property tax owner.

MR. MANDEL: Anything that we do as a City to make the City a preferred place to live, to work, to visit is ultimately an attempt to make this a more desirable place for people to come, for people to stay. That's going to result in values of property going up. That is a phenomenal problem for a City to have. The reverse, property values declining because people don't want to live in a neighborhood, because businesses don't want to be here. Why is it that we can only get 20-some dollars a square foot for premium office rent in Philadelphia? Because there's less demand for that. Why is it that some neighborhoods have seen their property values decline in years because there's less demand to be there.

Absolutely, unequivocally, the Tax Reform Commission understood that reducing taxes in Philadelphia, reducing any of the burdens that are shared by businesses, by individuals will result in more people wanting to be here, more people wanting to stay here.

That will increase property values. Certainly, it will increase property values for business, it will increase property values for individuals. And those are problems that this Council can deal with. There are mechanisms that we certainly looked in the Tax Reform Commission that make it easier for people to pay property taxes as the values go up. But those, as we said on the Tax Reform Commission, those are good problems to have. It's phenomenal some of the work that NTI has done in neighborhoods and some of the analysis that has come up, just the greening of streets, placing of trees increases property values on a street by 9 percent. That's terrific. But a lot of times we'll ring our hands a bit and say, "My goodness, property values are going up." People are going to have to pay more for the privilege of being in the City. Frankly, that's where the tax burden belongs in a locality, in value of place. Government makes this a place where people want to be and then it's important the government then realizes taxes.

We tax things that don't move out. We tax land, we tax buildings; that makes more sense. Unfortunately, in Philadelphia disproportionately we tax things than can move and, we have seen, do move. We tax individuals, we tax businesses.

For the gentleman who was up here who moved his business 51 feet outside of the City of Philadelphia, he's routing for the same sports teams, enjoying our whether, going to the Cezanne exhibit, just not paying our taxes.

COUNCILWOMAN BROWN: Let me ask you this. Do you know what percentage of the City's general revenue is represented by the BPT tax?

MR. MANDEL: The City's General Fund this year is planning to raise and spend about 3.4 billion. The BPT raises somewhere south of 300 million, I believe.

COUNCILWOMAN BROWN: Does it seem risky then to eliminate that much revenue from City coffers?

MR. MANDEL: Certainly not over

time. That's what the Tax Reform Commission was commanded by law to be fiscally responsible. And I can ask Al or anybody else who is in the room who was part of that Committee to tell you, we took that responsibility very seriously. And that's why the analysis that we performed said, yes, over time, a phase-out of this tax, a phase-down of the wage tax would make economic and fiscal sense for the City. We are not only Tax Reform Commission members or tax reformers, we are residents of this City. We did depend on the services of this City.

COUNCILWOMAN BROWN: So then businesses that earn a profit and business owners, when you move to ultimate phase-out and close-out of them contributing, is there not a moral obligation to support City services by paying taxes?

MR. MANDEL: Oh, and absolutely they do pay taxes. Business owners pay the property tax, they pay the use and occupancy tax, they pay to the extent that it's capitalized into their sales, the sales tax.

Liquor by the drink if you're that kind of business, amusement tax, parking tax, to the extent they tax the wage tax in form of either higher salaries or increased compensation; that tax is paid.

Again, in our analysis of other cities, it is not common to tax the way we tax in Philadelphia. Most localities tax almost exclusively property, some sales, some other fines, fees, that kind of this.

COUNCILWOMAN BROWN: And the record should reflect there's no dispute in that. The question continues to be how steep and deep we make the tax cuts over a period of time. I mean, there's a universal opinion upon members of this legislative body, all of us agree that the City should be engaged in tax cuts. The question and the thin line has been how deep should they be.

MR. MANDEL: And we appreciate that and it's been a great discussion to have that discussion. When the tax commission looked at it, we thought that the steepness that we proposed made sense. In fact, the bill before has been tweaked by Council to make it a little less steep than the Tax Reform Commission had proposed. And so I would say that's even more measured than what we had suggested. And certainly, econometrics that were performed for us and performed for Council, I believe, bear out that over time if Council can be disciplined, if the Mayor can be disciplined in some of the short-term budgeting, that we will see growth.

COUNCILWOMAN BROWN: The reality is, even in the current environment, we're seeing layoffs, libraries are closing, rec centers are closing. So do you think that the eliminating libraries and cutting libraries' hours and increasing fire response times qualify for taking steeper and deeper cuts, given the environment of what a year ago we were speculating and a year later we know is real.

MR. MANDEL: I would not have made some of the choices that this Council and this Mayor have made in their budget. I used to work in the City Controller's Office. The

City Controller's Office's business --

COUNCILWOMAN BROWN: Where would you have opted to make cuts.

MR. MANDEL: City of Philadelphia doesn't collect nearly as much of the tax revenue it should. It doesn't collect nearly as much as the fine and fee revenue that it should. There are wastes and efficiency throughout the government that I can point you to, numerous audits by the Controller's Office, numerous examinations by the Pennsylvania and Governmental Cooperation Authority that point out where you could save money. You have money stashed in certain places that are waiting for some rainy day. It's raining now; maybe we should tap into it. Act 71 money, you have money stuck in the Productivity Bank. The recent revelations of the City's extra cost in our government due to the pay to play system is now well documented. It's a big budget and people can disagree on where they would find money or where they'd look to find money, but I can tell you that the Tax Reform Commission looked. When we were in the Controller's Office, we put out our report and looked at it. PICA has come down and done their examinations. Certainly see that there are other choices made.

Remember, the budgetary stress that we're facing now as a City is due in large to the fact that we're spending a lot more money as a City. Whether you agree with the policies or not --

COUNCILWOMAN BROWN: And we're spending a lot more money in areas of the City's budget that seek to meet human needs. The needs of young people in this and elderly in this City are enormous, and somebody has to pay for them.

MR. MANDEL: There are certainly other places that we have made room for in the City budget. The City now spends about $25 million to subsidize the building and operating and maintenance of the Eagles Stadium and the Phillies Ballpark. That $25 million per year could buy a lot of tax reform for these people in this room.

COUNCILWOMAN BROWN: Well, I guess

the only difference is the leadership is in leadership, and you had the Tax Reform Commission. Ultimately, those in leadership have to make decisions based on the information they have before them.

MR. MANDEL: Absolutely.

COUNCILWOMAN BROWN: Thank you for your testimony.

Thank you, Madam Chair.

COUNCIL PRESIDENT VERNA: Thank you.

The Chair recognizes Councilman Cohen.

COUNCILMAN COHEN: Thank you, Madam President. I was wondering when we were going to begin talking seriously. It's one thing to talk about cutting business taxes. But when do the cut in business taxes get made up by other business taxes?

You talk about it's great when property values escalate. It's certain not great for people who live on a single level of income, on single social security check. If they live on that and the taxes go up, where do they get the money to pay for it?

MR. MANDEL: There are numerous ways that we can make it easier for people on a fixed income to afford the increase in property values.

COUNCILMAN COHEN: How?

MR. MANDEL: There are reverse mortgages, there are programs that the government could implement. I know a few years ago one was bandied about before Council, deferring increase in property tax of payments.

As I said, these are good problems to have. The reverse problem, the fact that nobody to move in your neighborhood because crime is too high, because vermin around, because houses are dilapidated. Those are the bad problems that Philadelphia has faced for far too long.

COUNCILMAN COHEN: But we're talking about people who live there now, not people who are going to make a choice to live there later. What happens to the row after row of houses occupied by senior citizens, and the number of them is increasing year by year, who live on a stable income and a small one? Because when they retire, the Social Security check was far smaller than it is today. What happens in the meantime?

MR. MANDEL: As I mentioned, there are programs that this Council could consider, be they involving the City in reverse mortgage programs which are handled privately. That's a fairly common way to deal with increases in property value and taxes now based on the future value of sale of your house. This Council has considered in the past and certainly could consider in the future efforts to defer payment of taxes. These are all, as I mentioned, good problems that smart people can figure out answers to, and I'm confident that this Council --

COUNCILMAN COHEN: Why do you say it's a good problem to worry an elderly homeowner with the fact that their income isn't enough to pay their taxes?

MR. MANDEL: No, the good problem is that the value of your house is increasing.

COUNCILMAN COHEN: If the value of

the house is increasing because of business activity, shouldn't business bear of brunt of that cost?

MR. MANDEL: And certainly they would. The value of all property in the City would go up. If this City is a more attractive place to live and do business.

Right now, business taxes, I believe, comprise about 55 percent of real estate taxation. If the City is a place where businesses want to be, business tax from the real estate would go up. If this is a place where more people want to live, I live in a neighborhood where prices have done up dramatically in the past few years. It's because our neighborhoods are a wonderful place to live where people are moving into everyday.

COUNCILMAN COHEN: But you keep talking in defense of higher taxes, people making a choice to live in the future. I'm talking about the people who live in Philadelphia now.

MR. MANDEL: The people who live in

Philadelphia now, as I understand it, want to live to live in safe, clean communities where there are opportunities for jobs and chances to raise their family and stay here.

COUNCILMAN COHEN: Well, let's say their families are raised already.

MR. MANDEL: Okay.

COUNCILMAN COHEN: And it's A widow or widower or maybe a couple together in their 70s or 80s who lived in Philadelphia. Maybe they retired 10 years and their income is a Social Security check, which does not increase very much each year if at all. Now why is it a good thing to confront those people with the question as to whether they're going to be able to live in the house, whether they're going to be able to continue leave what they thought they might leave to a couple children, maybe a couple thousand dollars each. But now they're going to have to get what you get a reverse mortgage, I think, or something o enable them to plug into that money in order to pay current costs.

To senior citizens, a lot of them

have really moderate income. They want to be remembered. They want to leave something to their kids as part of their life scope. Why should that be interfered with?

Why don't you come up with a proposal that says we're helping to build business, therefore, businesses have got to find a way to make up for that money because business is benefiting directly, instead of putting the burden on the homeowner.

MR. MANDEL: Anything is on the table.

COUNCILMAN COHEN: Well, would you have any suggestions along that line? Because you seem to be so concerned about business. And it's a fair thing to be concerned about. Every element in the community ought to be cause for concern when it comes to raising taxes or creating other problems. But why should that be the only concern?

Why shouldn't business that's going to be the prime benefit of the proposal to eliminate the gross profits tax, including the net income portion of it, why shouldn't you develop methods for business to make up for the loss of income that --

MR. MANDEL: A great deal of the increased tax revenue would come from business in terms of higher property taxes that businesses would pay, higher use and occupancy taxes that businesses would pay. To the extent that businesses pay their sales tax or don't pass it on to their consumers in higher tax payments and also in higher wage tax payments to the City because we would grow jobs in the City. I think it's a misnomer to suggest that the Tax Reform Commission has suggested eliminating taxes on business.

COUNCILMAN COHEN: Well, I may have missed that particular page, but I don't remember seeing a chart or an outline of the amount of money that this would cost the City in terms of revenue, a reduced revenue for business and how business would compensate for that are.

MR. MANDEL: I'm happy to walk you through the Appendix 3 of the Tax Reform Commission report which does just that.

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COUNCILMAN COHEN: Would you do that?

MR. MANDEL: Sure.

COUNCILMAN COHEN: Now?

I mean, I've heard these promises for so long.

MR. MANDEL: I'd be more than happy to.

COUNCILMAN COHEN: Like the promise that economic development is going to produce 300 jobs and 400 there and 20 here, and yet we never get a single instance of proof from PIDC or any of the business groups.

MR. MANDEL: Madam President, I'll ask the discretion of the Chair. If you would like me to walk through the econometrics of the Tax Reform Commission's recommendations, I'm pleased to.

COUNCIL PRESIDENT VERNA: I think that would take an awfully long time right now. And we have any number of witnesses that want to testify.

MR. MANDEL: I'm happy to make myself available to the Councilman now in private or later in private to do just that.

COUNCILMAN COHEN: No, I would like it to be in public. Why in private? If it's public information, let's have it public.

(Applause.)

COUNCILMAN COHEN: Too much is done in private, which means that proof is never given to the public.

COUNCIL PRESIDENT VERNA: Councilman Cohen, we did have very extensive hearings on the tax reform and the report from the Commission. I think it would be very unfair for all of the witnesses that have been sitting here since 1 o'clock today to have to sit through it at least another 45 minutes of just this panel.

COUNCILMAN COHEN: Well, I think it's been unfair that all we've heard of witnesses that justify a what I regard as a tremendous tax giveaway. There hasn't been any confrontation.

COUNCIL PRESIDENT VERNA: Councilman, this is only the first panel that we're hearing. The panel that preceded them were the Chamber of Commerce, and they weren't even a panel. But as I said, this is just the first panel. We haven't gone through three pages of witnesses that want to testify.

COUNCILMAN COHEN: Well, I would like to suggest that there be a mix. Let's hear from those who don't think it's a good idea.

COUNCIL PRESIDENT VERNA: We are taking people in the order in which they called. That is how this list has been compiled. So if you want this group to come back another day so that they could provide you with the information you're seeking -- we're having the Administration come back at a later date. They too can come back at a later date. But I think it would be grossly unfair of us to have all of these people waiting to testify and not hear them.

COUNCILMAN COHEN: I think it's been terribly unfair so far because we've only heard one side of an issue.

(Applause.)

COUNCIL PRESIDENT VERNA: Well, it's

only because we have not been able to get any further than the first panel on this list. That is why you have the impression that you have. However, as I said, I think we ought to proceed. And I'm sure that Mr. Mandel would not mind coming back a second time when we have the Administration so that he could walk through whatever it is that you want him to do.

COUNCILMAN COHEN: Well, I'm for that provided it's done publicly and people have a chance to question and understand it. And I certainly agree with the Chair that I think we ought to move ahead to give the opponents of what I regard as a tax give-away a chance to be heard so that discussion is joined between both sides.

COUNCIL PRESIDENT VERNA: Mr. Mandel, you agree to come back at a later date so that you can walk through whatever part of the report that is being asked to you?

MR. MANDEL: I will appear at your discretion.

COUNCILMAN COHEN: Very good.

COUNCIL PRESIDENT VERNA: Thank you.

Thank you very much, Councilman.

The Chair recognizes Councilman Kenney.

COUNCILMAN KENNEY: Just quickly, Madam President. This is my opinion, and I'm only expressing my opinion, tax reform and tax reduction did not cause the condition that we have now in our City budget. Tax reform and tax reduction was not an issue in the condition of our City Operating Budget as we stand today. So tax reform and tax reduction is not responsible for the calls or the need to cut services, to look at the Fire Department, to cut library hours, those kinds of things. There were basically two or three things that happened that caused us to be in the condition that we're in. First and foremost was a spending decision in the Administration that was made unilaterally to employ Operation Safe Streets that cost at least a hundred million dollars, and probably more, over and above the normal Police Department budget.

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Now, you can argue that that's a good thing or a bad thing, but we didn't vote on it, and it was spent. That's a hundred million dollars that could be used for services and tax reduction.

There was a pension non-performance in 2000, 2001, that cost us about $35 million a year for probably forever until we figure out how to fully fund our pension system. That was not something that Council voted on. It's something that happened. Maybe we should have been more prepared for it, but a lot of people took a hit when that bubble burst.

And thirdly is the $21 million a year we spend in NTI for the next 30 years. I didn't vote for it. I know a lot of people voted for it and a lot of people believe in it. But there are spending decisions that were made either by the Mayor or in combination of the Mayor and Council that has put us in a position today to have to talk about tax cuts versus service cuts. Tax cuts did not put us in the situation our government is in today.

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COUNCIL PRESIDENT VERNA: Councilman, how about PGW?

(Applause.)

COUNCILMAN KENNEY: My point is, is that the sad part about this is that this philosophical, this economic discussion is being placed in opposition to social service cuts that the tax cuts have nothing to do with. They have nothing to do with them because they didn't create the problem. The problem was run-away spending that was refused to be bridled in because it was an election year and things that happened to Pension Fund and other programs that we decided to do or the Mayor decided to do that put us in this condition. So I think the blame ought to go where it belongs, and that is spending put us here. And I think tax reduction is going to pay the price or potentially pay the price for bad spending decisions over the last five years. Thanks.

(Applause.)

COUNCIL PRESIDENT VERNA: Are there any other questions or comments from any other members of the Committee?

(No response.)

COUNCIL PRESIDENT VERNA: Seeing none, I thank you all so very much for coming in to testify. Thank you for your patience.

Our next witnesses.

MR. MCPHERSON: Robert Zuretsky and two others from the Philadelphia Parking Association.

MR. ZURETSKY: Good afternoon.

COUNCIL PRESIDENT VERNA: Good afternoon.

MR. ZURETSKY: My name is Robert Zuretsky, President of the Philadelphia Parking Association. My organization represents nine private parking companies operating in the Philadelphia area and over 2500 employees in the parking industry. I am again here to express my concern about the Administration's intention to increase the parking tax by 33 percent.

Philadelphia's driving public already pays the highest tax that Philadelphia charges for any good or service its citizens purchase with its current 15 percent parking tax. No governmental chamber is more aware of how dangerous increasing taxes can be to a City's business environment than this City Council. This was proven last year when you not once but twice wisely defeated the same parking tax increase.

The business environment in our great City is troubled. Realtors report that the office market will have a vacancy of over 7 million square feet of office space in Philadelphia and no obvious answer to this problem in the form of new tenants on the horizon. Increasing the parking tax, which touches, every aspect of our economy right now, could spell disaster. If this increase were to occur, our projections show the parking rates could climb 7 to 10 percent. The new parking tax revenues will be offset by less tax revenues from customers who decide not to use our restaurants, theaters, museums, hospitals, sporting venues and hotels.

Ask yourself what kind of a signal does the City send when it lowers one regressive tax, but raises another? If Council wants to see an example of the rippling negative effects of a parking tax increase of this proportion, all you have to do is contact your colleagues in the City of Pittsburgh. A parking tax increase caused a decrease in the number of people parking their cars as well as doing business in the City. The result was less business in downtown Pittsburgh and the further loss of business tax revenues. Believe me when I tell you, you don't want Center City Philadelphia to look like downtown Pittsburgh where there are 30 percent occupancy in office buildings and brand-new department stores that have recently closed.

Last March when I began speaking last year about the proposed parking tax, I sat next to a gentleman at the Center City's Proprietors Association who told me that just the fact that the Administration was proposing the parking tax increase was enough to chase his accounting firm to Bala Cynwyd. He told me that that was the last straw, just the proposition of raising the parking tax.

Center City is where 55 percent of the tax revenues are generated for the City. Drivers who park in Philadelphia are already facing record high gasoline prices and insurance rates. If the parking tax is increased, it could result in $183 increase per parker per year.

In addition, SEPTA is currently in crisis. It is not a stretch to say there will be probably some across-the-board rate increase for riders. The City needs companies to locate here, but it also needs workers, many of whom have options outside Philadelphia. The roads and rails are vital arteries that keep this City's heart beating. Raising parking rates could be the final act in choking off every mode of transportation that the City desperately needs. Please don't make that mistake.

Last year, our industry filled this hall with hundreds of employees who represented the 2500 workers in the parking industry. Since then, support for our efforts has grown. As you heard from Mark Schweiker from the Chamber of Commerce, this tax increase is a bad idea for the City. There is also opposition from Rittenhouse Row Association, the office building owners, the hotels, the hospitals, cultural intuitions, shops at Liberty Place and Jonathan Saidel, City Controller. Also, all the residents. I haven't had enough time to speak with all the different resident agencies and their associations. I plan to do that to get their support also. It's going to be a big tax increase for them.

All these groups are saying the same things. Don't take a giant step backwards in our attempts to improve the business climate in the City.

Thank you for the opportunity to speak with you today.

COUNCIL PRESIDENT VERNA: Thank you very much.

Excuse me, sir, did you want to testify?

MR. BLAKE: No. I'll identify

myself. My name is Alan Blake with Central Parking. I just came here today to lend my support as part of the Parking Association. I spoke last year in the spring on this issue. Again, just to lend my support. I spoke about many of the employees that I have that work in my organization. And I'm just surprised again when I saw this come up as an issue. I thought, if anything, we should leave the tax as is. It shouldn't be tied to the business privilege tax. It should be left to be viewed in its own merit. That's what I just wanted to say today.

COUNCIL PRESIDENT VERNA: Thank you.

Are there any questions from members of the Committee?

(No response.)

COUNCIL PRESIDENT VERNA: There are none.

Thank you very much for your patience.

MR. ZURETSKY: I had one comment. There was one question that Councilman Clarke asked as to where you could find other areas for revenue. And I just wanted to throw out the billboard industry which has 2500 billboards.

COUNCIL PRESIDENT VERNA: Oh, you have just hit a nerve in somebody's body here. I don't know if he heard you.

Councilman Cohen.

COUNCILMAN COHEN: The fewer billboards, the better.

MR. ZURETSKY: Well, there are 2500 up in the City. Half of them are not regulated. If you tax them just what you tax our industry, I think you'd find your revenue right there with no problem at all.

COUNCILMAN COHEN: Except add to the blight of the City.

MR. ZURETSKY: I'm just saying to tax them. They should pay their fair share.

COUNCIL PRESIDENT VERNA: Thank you very much.

MR. MCPHERSON: The next witness is Krista Bard.

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

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

MS. BARD: Thank you. I am Krista Bard and I am President of the Center City Proprietors Association. We look out for small businesses.

Politicians love to talk to us, to pat us on head and tell us we're the backbone of the economy. But what tax breaks do we get? Hardly any. If it wasn't for Councilman DiCicco and his tax abatements, we wouldn't have a thing. Small businesses get nothing compared to what big businesses get.

Eighty percent of the Americans work for small businesses. And what comparable tax breaks to small businesses get compared to the big companies in Philadelphia? None. What is ironic is that this City prides itself as being democratic. Democrats outnumber Republicans 3 to 1, but it is giving big breaks to big businesses. Sounds like another party.

To add insult to injure, the Mayor now wants to put excessive taxes on parking to raise funds.

We did a survey of 1,000 small business owners. And they said the two top obstacles to doing business and living in the City were taxes and parking. People already don't want to come to town because they have to pay for parking. Now you want them to have to pay more, so they'll want to come to town even less. Raising parking taxes is ludicrous logic, at best; and suicide for small business, at worse.

Representative Dwight Evans has the right idea. He suggests that every auto registration be charged $2 more. We should think creatively as well. What can we $2 more to on an annual basis that wouldn't be such a burden? Why not levy taxes on things people don't want in City, like SUVs, boom boxes, some luxury goods, adult entertainment or guns?

Small business owners don't want increased parking rates because it's another obstacle for people to do business with them.

Let me ask you something. Do you

want us here or not? If you want us, give us some breaks and give them to us now.

I have a dream. We have a dream. I would like Philadelphia to be the best City in the country to start a new business and the best City in the country for small business owners. We are so far away from that it's appalling.

It's disappointing, people are even leaving and talking as we give testimony. What do they care about small business? It's really a question.

As president of CCPA as the voice of small business in this City, I beseech you to wake up and take action. Don't add a parking tax and get rid of the business privilege tax. It's about time you did something to let us know that you want us to be here. Otherwise, your big businesses that you love so much will have nowhere to go to shop, to eat, or to live; and even they're not going to want to be here. The small businesses will be gone and then you'll all have to register as Republicans.

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COUNCIL PRESIDENT VERNA: Thank you very much.

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

The Chair recognizes Councilman Kelly.

COUNCILMAN KELLY: I couldn't resist this, Madam President.

Ms. Bard, I just want to disagree with why you should -- the difference in registering Republican, the reason why you picked, but I certainly wouldn't mind people registering as Republicans. God knows we need more of us in the City, I think.

COUNCILMAN RIZZO: I'll second that.

COUNCILMAN KELLY: Thank you very much.

COUNCIL PRESIDENT VERNA: The Chair recognizes Councilman Goode.

COUNCILMAN GOODE: Thank you, Madam President. Just for the record, small businesses do receive a tax credit for creating new jobs.

MS. BARD: Thank you.

COUNCIL PRESIDENT VERNA: Any other questions for members of the Committee? Any comments?

(No response.)

COUNCIL PRESIDENT VERNA: Seeing none, I thank you very much for your patience.

Our next witness.

MR. MCPHERSON: Andrew Chirls, Chancellor of the Philadelphia Bar Association.

COUNCIL PRESIDENT VERNA: Good afternoon. Welcome.

MR. CHIRLS: Good afternoon, Council.

COUNCIL PRESIDENT VERNA: And congratulations.

MR. CHIRLS: Thank you very much. I'm the first person to appear alone at this stand.

COUNCIL PRESIDENT VERNA: I'm sure you'll be fine.

MR. CHIRLS: I appreciate it.

I thank you and I thank all of Council on behalf of the 13,000 members of the

Bar Association. I appreciate the opportunity to testify on tax reform generally and more specifically on the elimination of the business privilege tax over a period of time. We understand that this is a very big issue and that it relates to the entire funding of City government, but we support the recommendation overall of the Tax Reform Commission and have passed a resolution in favor of the balanced package that the Tax Reform Commission recommended.

There is a special aspect of the business privilege tax which affects most professional service entities that are formed as partnerships rather than corporations and it affects sole proprietorships. Many of our members are sole proprietors as solo practitioners, and a third of our members are in small firms. The people in the small firms are often in the neighborhoods. They are the people who take the pro bono cases. They're the people who take the court appointments. They're the people who in many ways hold our neighborhoods together. I'm not just here on behalf of people like me who wear blue suits and go to work in the highrises, though this issue is important to them as well.

Under the current tax rules, if a service firm is organized as a corporation, the employee owners and the officers of the business will pay the City wage tax at about 3.9 for non-residents and 4.25 percent for residents. But if the same firm were organized as a partnership, the partners would also be subject to the business privilege tax of 6.5 percent on their net income and the partnership would pay the net profits tax. While there is a credit for 60 percent of the net profits portion of the business privilege tax, the effective rate of tax on partnership net income could in some cases be more than 7 percent. And that affects not just lawyers but other partnerships and sole proprietorships. It's a major inequity. And so many of our lawyers and many other people pay taxes twice, and that's not fair, it doesn't make sense and nobody else pays it that way. This is a small business issue.

Our surveys over the last 15 years show that Philadelphia law firms have been opening satellite offices at an accelerating rate. The big firms are not growing in Center City; they're growing outside of Center City. And some of the Philadelphia law firms just in the west side of the Market Street West corridor employ about 10,000 people. So that's a very large part of the Philadelphia economy as well as the people in the neighborhoods. And we ask for an equity that would be accomplished by the business privilege tax.

Philadelphia lawyers are exporters for this City. There was a time when if you went up Broad Street, you went past the factories where we exported the hats. You could go in the suburbs and see where we exported steel or even along the river. We don't do that anymore. What Philadelphia lawyers do is work here on cases and transactions well beyond our City limits. And when we do that, we hire people who work here and we exported knowledge and professionalism.

We do it because we have loyal relations with our clients. We do it because we're smart and capable. And we do it because we are lower priced than places like New York or Chicago. Client loyalty, as people know, only lasts so long. Being smart, it's a good thing to be, but being cheap is important. And if we're paying taxes twice, it's hurting our ability to be one of the key exporters for something for this City for the benefit of this City.

So I thank you.

I have submitted written comments from which I've departed.

COUNCIL PRESIDENT VERNA: And we will make a copy of your testimony available to the stenographer and it will be transcribed in full.

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

(No response.)

COUNCIL PRESIDENT VERNA: Seeing none, I thank you so much for your patience. Thanks for coming in.

MR. MCPHERSON: I'd like to call up

the following people who are associated with the Board of Realtors, Al Perry, Judy Buchsbaum, Lawrence Rust, and Tony Brown.

COUNCIL PRESIDENT VERNA: Good afternoon. I would ask that you please identify yourself for the record and proceed with your testimony.

MR. PERRY: Thank you, Madam President and members of City Council. For the record, my name is Al Perry. I'm a Realtor and President of the Greater Philadelphia Association of Realtors, with over 1500 members and 319 local business offices.

Our association has provided for you position papers on Bill No. 040767, so I'll spare you from reading it today and ask you all to take a look over it and if you have any questions or concerns, please feel free to contact us.

I do, however, want to state today that the Greater Philadelphia Association of Realtors strongly supports this bill. It is smart legislation that is fiscally responsible.

Philadelphia needs to encourage the creation of new jobs in our great City. All you need to do is drive down City Line Avenue to see the impact of the business privilege tax on our local job market. If the jobs exist in our neighboring counties, the likelihood of employees living in Philadelphia drastically decreases. New local jobs will have a tremendous impact on Philadelphia's economy which, of course, includes but it is not limited to the housing market demand.

If I can borrow a line from one of my favorite movies, "Field of Dreams," if you build it, they will come. No truer words have ever been spoken in regards to this situation. If the City shows a commitment to steadily decreasing and ultimately abolishing this business privilege tax, businesses will come, jobs will come, people will come, and new revenue will come. This City has more to offer than our neighboring counties. If you level the playing field, they most definitely will come. I can give you one glowing example of this.

I've been a proud Realtor since 1995, and a majority of my real estate experience is in Council President Verna's district and Councilman DiCicco's district. As I've grown as an agent in this business, I see a strong opportunity for me to open my own office and become an owner and employer myself. Yet one week ago, I was looking and strongly considering as a location for this business a commercial property on Chester Pike in Delaware County. I would be close enough to I95 and Philadelphia that I could still serve my loyal client base, however, my commitment and growth would most likely begin in Delaware County at that point. This is only one example of a lost opportunity for Philadelphia. The good news is that I haven't yet made a final decision. And given a strong commitment from Philadelphia such as support for this bill, I would be more than happy to set up shop in South Philadelphia where I've been practicing since 1995.

In closing, I would like to express

that while I have been privileged to conduct business within this City, Philadelphia also has been privileged with my being here.

Thank you for your time and consideration. I look forward to the passage of Bill 040767.

COUNCIL PRESIDENT VERNA: Thank you, Mr. Perry.

Good afternoon. Kindly identify yourself for the record.

MR. BROWN: Honorable members of City Council, I appreciate the opportunity to testify before you. My name is Tony Brown. I'm a small business owner, Realtor and resident of Philadelphia.

I love the City of Philadelphia and want to continue to make positive growth and vitality to the City. Because of this commitment, I strongly support Bill No. 040767.

Prior to managing my own busy, I served in the housing and community development community for almost 30 years and have helped to revitalize communities in North and West Philadelphia. So I know from personal experience that jobs are the foundation for stabilizing our neighborhoods and delivering basic services.

Over the past decade, the population has dropped because people and jobs have just left the City. What do we have to show for it? Abandoned neighborhoods. Just drive through the neighborhoods and you will see that when jobs and neighbors leave Philadelphia, the neighborhoods decline. Nevertheless, I'm confident that we can reverse this trend and see Philadelphia grow and flourish. But in order for this to happen, there must be a dramatic reduction in the business privilege tax. I strongly believe that this additional tax burden has directly contributed to the loss of population and businesses we are experiencing in our City. I too believe that elimination of the business privilege tax will promote business growth and in turn keep people and industry in the City and attract people and industry to the City, bringing the revenue that we need.

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Philadelphia's residential property values actually rank below lack luster cities like Newark, New Haven and Hartford. Let's face it, for most middle class families, a home is our most significant investment and most significant asset. Tax reform will indeed increase property values for homeowners in the City of Philadelphia. Businesses that have to compete in neighborhoods are a prerequisite for neighborhood transformation. We need to create a business-friendly environment jobs in our neighborhoods so that residents will have jobs in our neighborhoods, buy homes in our neighborhoods, get a good education in our neighborhoods, and contribute to the growth and vitality of our neighborhoods.

When I hear reports that tax reform will force the City to cut critical services, I just scream because I know that's a cop-out. We just don't want to deal with the tough decisions required to deliver services more proficiently. I have been a part of the process of getting more for less. I know that under your great leadership we've been able to slowly reduce our tax burden while dramatically expand City services to neighborhoods across this great City.

The bill proposed by Councilman Nutter calls for a gradual elimination of the business privilege tax by the year 2017. By eliminating the business privilege tax, you are demonstrating to residents and businesses that the City of Philadelphia is serious about tax relief. You are sending a message to corporations that Philadelphia is becoming a more business-friendly environment. And undoubtedly, this will encourage them to relocate to Philadelphia. I am the President of Lab III & Associates and I do not see doing business in Philadelphia as a privilege but as a necessity to bolster our City's economy and standing in the business world.

Without the passage of this bill, Philadelphia will continue to suffocate under unnecessary taxes. The business privilege tax is a significant burden not only for me, but also for all business owners, especially small businesses in our neighborhoods. As a Realtor, the consistent decrease in population is a viable concern in my industry, but more importantly, as a resident and employer in Philadelphia my deepest concern is for the greater good of the City. Business growth will inevitably lead to a rise in population as new employers and their employees relocate to Philadelphia. These concerns need to be addressed, and I commend all of you for dealing with this issue.

Any opposition to this bill will state that the City cannot presently afford an elimination of revenue-producing tax without negatively affecting City services. I know we're better than that. Philadelphia business tax burden is the highest among major cities. We tax things that other cities don't tax and we tax them highly. We can eliminate these he taxes without it being detrimental to City services.

The City Controller's Office showed that after the City began to cut its taxes in 1996, Philadelphia finally experienced some job growth and actually increased its tax revenue substantially. By enacting the recommendations of the Tax Reform Commission to eliminate the business privilege tax, reduce the wage tax, and reform real estate tax, we can create jobs and generate investment in City neighborhoods and spread neighborhood transformation throughout the City.

In closing, I urge you to vote yes and pass Bill No. 040767. I trust that your commitment to residential and business community alike in Philadelphia will outweigh any political affiliation and pray that you will commit yourself to serious tax reform for Philadelphia and pledge your support to Bill No. 040767.

Again, I thank you for the opportunity to testify.

COUNCILWOMAN BLACKWELL: Thank you very much.

Are there any questions?

Councilman Clarke.

COUNCILMAN CLARKE: Good afternoon.

One quick question. You said reform real tax taxes. What do you mean by that?

MR. BROWN: Reform the taxes so that the burden is not on the real estate industry to pay its fair share into real estate taxes. That's all. I'm saying to reform it to give a balance share of real estate taxes. Philadelphia has a high tax, and we think -- let me speak for myself. I believe that should be made more fair comparable to other cities.

COUNCILMAN CLARKE: I don't understand. What are you suggesting we do? You're saying reform it meaning to reduce it, to change the way we assess it? -

MR. BROWN: Reduce it in support of what the Tax Commission has outlined in its recommendations.

COUNCILMAN CLARKE: They weren't recommending that we reduce it.

MR. BROWN: My recollection was -- what was it then? I apologize.

COUNCILMAN CLARKE: You're saying collections?

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MR. BROWN: We're talking about the real estate tax, reforming it to reduce the burden of the real estate tax.

COUNCILMAN CLARKE: I'm trying to understand what you mean by reforming it. You want us to reduce the real estate tax in addition to all the other taxes?

MR. BROWN: Correct.

COUNCILMAN CLARKE: So are we supposed to use to run the City?

MR. PERRY: If I could interrupt for one second. I don't think the Association is looking for City Council and this government to reduce the City property tax, if that's what you're asking.

COUNCILMAN CLARKE: I'm just asking him to clarify. The statement was made he wants to reduce all the other taxes and reform the real estate tax, and I'm just trying to understand how he wants us to reform the real estate tax.

MR. BROWN: I'm not an economist, so I'm not qualified to respond. I know I'm in support of what I believe the tax commission has submitted and included a reform of the real estate tax.

COUNCILMAN CLARKE: Well, they were kind of suggesting a hundred percent evaluation that would actually in most cases, my belief is, increase to a substantial level.

MR. BROWN: Well, as a business owner, I wouldn't be in support of increasing a tax burden because I believe that we should be increasing jobs in neighborhoods.

COUNCILMAN CLARKE: You made the statement.

MR. BROWN: I understand. Stand to be corrected.

COUNCILMAN CLARKE: Thank you, Madam Chair.

COUNCILWOMAN BLACKWELL: Thank you, Councilman.

Any other questions?

(No response.)

COUNCILWOMAN BLACKWELL: Thank you very much.

MR. MCPHERSON: The panel Harriet Lessy, Michael Kaplan, BJ Hoffman, John Kroll.

COUNCILWOMAN BLACKWELL: So are we to assume, Ms. Lessy, you're speaking for everyone.

MS. LESSY: You are to assume that. I have their written testimony, but unfortunately, they had to leave.

COUNCILWOMAN BLACKWELL: We understand.

MS. LESSY: I'm sure you do.

The only person I'm not going to give you a written testimony on is for myself Harriet Lessy, born and raised in Philadelphia, and I consider it to be a privilege to be in business in Philadelphia. Part of that privilege, unfortunately, is to pay many, many taxes. Most of the time, I think you know this, Madam Chair, that I am not objecting to it, but it is the business privilege tax which includes gross receipts and net income that I am personally objecting to today.

It has been a privilege to pay the school income tax, the real estate tax, sales tax and the tax on drinks beverages in restaurants. I even don't mind paying parking taxes. I do object personally to the proposed increase. I don't even object to paying the extra 3 percent on a car lease. But I think it's time to reduce, even gradually, the business privilege tanks.

I thank you for that. I.

Have testimony here which I will save you the trouble. I'll just hand it to you from John Kroll who is the President of the Greater Philadelphia Hotel Association who is here to say unanimously our organization is asking you not to increase parking tax; from Schectman Marks DeVor and Etskovitz, testimony from Brian J Hoffman, a CPA who is asking also for reduction in business privilege tax; from Michael Kaplan, Zarwin, Baum, Devito, Kaplan Schaer & Toddy, a law firm that employs 50 people in Philadelphia, reduction in business privilege tax; and from Rick Olivieri, President of the Reading Terminal Merchants Association who also had to leave. His computer went down at the Reading Terminal. And I'm also offering his testimony.

Thank you very much.

COUNCILWOMAN BLACKWELL: Thank you very much.

Are there any questions for Ms. Lessy?

Let me say for the record that all of the testimony will added as if it had been said verbally and we thank you for coming.

MR. MCPHERSON: The next witness is David Rech.

(No response.)

MR. MCPHERSON: Then we have a panel, Stan Shapiro, Sharon Ward, Jonathan Stein, K.C. Ellis.

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

MR. SHAPIRO: I'm Stan Shapiro, and I'm co-founder of the One Philadelphia Coalition, all of whom are gathered here now and will be testifying. First our co-chairs will be testifying.

COUNCIL PRESIDENT VERNA: Excuse me.

Are all of these people going to testify?

MR. SHAPIRO: All of these people, yes, are with us. And we've all been waiting since about 1:15.

COUNCIL PRESIDENT VERNA: I understand. And we just did the list as people called. Now, apparently there are two panels here. Is Beth McConnell here.

MR. SHAPIRO: Yes, Beth is here.

COUNCIL PRESIDENT VERNA: Pedro Rodriquez?

MR. SHAPIRO: Mr. Rodriquez is not here. He wanted to be here but was not able to be here.

I think, frankly, we're it.

COUNCIL PRESIDENT VERNA: I'm not sure, but please proceed.

MR. SHAPIRO: I'd like introduce two co-chairs of our coalition, Tom Cronin and Sharon Ward. Mr. Cronin is going to testify first.

COUNCIL PRESIDENT VERNA: Good afternoon. Identify yourself for the record and proceed with your testimony.

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MR. CRONIN: My name is Thomas Paine Cronin. I'm president of AFSCME District Council 47.

COUNCIL PRESIDENT VERNA: Please proceed.

MR. CRONIN: Today, we have heard a virtual chorus of al supporters arguing for ending the business privilege tax or BPT. We agree that parts of the BPT are onerous and unfair; in particular, the gross receipts tax. This tax does put an unfair burden on small businesses. However, everyone here must understand that cutting taxes will inevitably lead to a reduction in City services.

Over the past year, City employees have seen the slow but steady reduction in the number of people who provide City services. While some may argue that the City workforce must be scaled back, it is also clear that the changing demographics of our City have increased the demand for a greater variety of services.

Now we are caught in a tax-cutting frenzy based on the popular yet unproven premise that by reducing taxes to the lowest possible level will create and sustain a growth in jobs, and thus the over all economy of our City. Even if one accepts this notion on faith alone, it still fails to explain how the level of services provided by the City can be sustained.

Unfortunately, we have all seen the real effects of reducing tax revenues. Mothballing of various fire-fighting units around the City, conversions of neighborhood swimming pools to sprinkler lots, reduction in the size of the police force, diminished hours in 20 of our library branch libraries. At the same time, City employees are once again told to, "Do" more with less."

I am here today to tell you that all these tax cuts will end up forcing City workers to "Do everything with nothing." That idea should be an anathema to everyone who claims title to the name and characterization of "public servant." To expect that services can be sustained while reducing the funding for those services is clearly the triumph of hope over reality. We need to make our City more attractive for businesses and people to come here, but we must not do so at the expense of the more than 1 million people who live here. Thank you.

I also have the Presidents of two of the City's locals here, Cathy Scott of Local 2287; Mike Walsh of 2186, who can speak specifically if you need to about not only the layoffs that have occurred recently across the field, but also this slow attrition, this loss of jobs in almost every single city department, commission, agency, and board in the City. And they can tell you how this affects City services that we provide and how it's going to continue unless things get turned around of the reduction of service in the City of Philadelphia which should be the real alarm for everybody here. Thank you.

COUNCIL PRESIDENT VERNA: Thank you.

Is Ms. Scott going to testify?

MR. CRONIN: They are willing to make comments if any of the Councilpeople have questions about either their particular

Councilmanic districts, how services have been cut back, or just generally how they've been cut back over the years what the effect has been on the community. They're here to do that.

COUNCIL PRESIDENT VERNA: Thank you.

If any Councilmember so desires, please let it be known.

Councilman Clarke.

COUNCILMAN CLARKE: Thank you, Madam President.

Good afternoon. Mr. Cronin, a real quick question. I'm going to ask you a couple of question of which I know the answer to. I guess you would say they're leading questions.

COUNCIL PRESIDENT VERNA: Now you sound like a lawyer.

COUNCILMAN CLARKE: Mr. Cronin, how many people are in your union, in your local?

MR. CRONIN: There's about -- it depends on the local that you're talking Cathy has a certain number in hers, and Mike has a certain number in his. We're talking about approximately 2500 or so City employees and you're talking over 5,000 members of the union when you talk about all the locals.

COUNCILMAN CLARKE: That are currently in the workforce?

MR. CRONIN: Yes. Most of whom live in the City and pay taxes in the City.

COUNCILMAN CLARKE: I'm leading you so good that you're answering it before I give you the leading question.

MR. CRONIN: I'm sorry.

COUNCIL PRESIDENT VERNA: I'm sure you don't mean "most of whom." I would hope you mean "all of whom."

MR. CRONIN: No, we have people who we represent who are not City workers but who still -- other people, for example, that work at Temple, people that work at the University of University of Pennsylvania, people that work in the private non-profits, all other local. We represent people outside of City workers, but most of whom, let me be crystal clear, live in the City of Philadelphia whether they work for a public institution, a government or private concern.

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COUNCIL PRESIDENT VERNA: Understood. Thank you.

COUNCILMAN CLARKE: So all of the members of your union that work for the City live in the City?

MR. CRONIN: Unless they have a special exemption granted by the City, yes, they do.

COUNCILMAN CLARKE: So it would be reasonable to say that you have a 100 percent residency, the workers that work for the City?

MR. CRONIN: I would say that's pretty close.

COUNCILMAN CLARKE: Would you say that there's probably no other industry that has a such a percentage of employees that live in the City of Philadelphia?

MR. CRONIN: Other than any other City union like District Council 33?

COUNCILMAN CLARKE: Other than a municipal union.

MR. CRONIN: I would say that's correct, yes.

COUNCILMAN CLARKE: So when we had

an earlier discussion about some of the hospitality industries and things of that nature and there was a reference that those people lived in the City of Philadelphia which is why we need to strengthen the hospitality industry because those people live in the City, the same thing could be said for your particular workforce?

MR. CRONIN: I would say that it could be squared or whatever. I mean, there's plenty of people that I know in the hospitality industry that don't live in the City of Philadelphia. So I heard a lot of nonsense up here today that I had to bite my tongue while I'm listening to because -- we all have a different reality, I guess. But we're the rubber meet the road. We see the people that are brought who have just been laid off or who aren't being replaced. So we can look into their faces and we can actually see the pain that they have and we can also see that the services that they're not going to be providing.

COUNCILMAN CLARKE: And I agree with

you that although probably a majority of the people that work in the hospitality industry probably live in the City, but it's not 100 percent. So to eliminate a City worker who does live in the City of Philadelphia, who pays real estate taxes in the City of Philadelphia or rent or whatever in the City of Philadelphia, who pays a higher wage tax because they live in the City of Philadelphia, who more often than not will spend their expendable capital in the City of Philadelphia because they shop in the local neighborhoods, to eliminate that type of employee to enhance another type of industry that may or may not have an employee that lives in the City of Philadelphia, you would say that's probably not a good trade-off, right?

MR. CRONIN: No, I don't think it's a good trade-off, that's correct.

COUNCILMAN CLARKE: Okay, I just wanted to go down that line of questioning because somehow this thought that when you downsize government that somehow these are mythical people like they're not real people, that they're not people who live in our City, not people who've committed to live in our City, not people whose raised families, who send their kids to public school in our City. I mean, it's just a number. And while those 200 people that just got laid off is just a number, they're real people. You talk about having to interact with those people and try to get them placement, and I would probably say the likelihood that they probably won't get as high-paying a job as they had when they left the City of Philadelphia in most cases. So they're not only downsizing the City workforce, we're downsizing that particular family's economy.

MR. CRONIN: Councilman, you're absolutely right. Not only are we talking about those folks who are laid off, won't have work and probably, depending upon their age, may not get work again, we're also talking about people who utilized the bumping down process who are going to be losing thousands and thousands of dollars in terms of their family income.

COUNCILMAN CLARKE: Thank you, Mr. Cronin.

COUNCIL PRESIDENT VERNA: The Chair recognizes Councilman Ramos.

COUNCILMAN RAMOS: Thank you, Madam President.

Thank you Mr. Cronin and company for waiting patiently this afternoon. The last shall be first, they say. Someone greater than all of us said that.

I'm glad that you're here to voice another opinion outside of the other statements that we've heard this afternoon. My friend former Governor in his testimony today said that small neighborhood businesses are the heart of the neighborhood, economic development. And I thought a lot of the Governor especially at the end of his short term as he led the rescue of those miners. So if the Governor is watching or listening, take no offense, however --

MR. CRONIN: You know, it was AFSCME members who saved those miners.

COUNCILMAN RAMOS: That's right, it

was the workers. I understand.

In his statement, he says, "We have many things going for us, new market rate housing being built throughout the City, new office towers are being built downtown, sport franchises having a banner year, Bio 2005, Barnes relocation, all this big stuff that happen which is wonderful for the City. And new market housing, we all know, is a barometer for a way of measuring the economy of any City in any location in this country. But he says that it is all driven by small neighborhood businesses. But there's no mention -- while he talks about this market rate housing and the skyscraper that's going up, he doesn't mention that affordable housing has gone on in this City. Compared to other cities, we have done fairly well. Community-based groups have driven this government of this Administration and past governments to do more. And I suspect, because I know a little it, not much, not as much as probably you do Tom, but know a little bit that the people that are living in those non-market-rate housing are the working people of the City, and that, in fact, when they buy affordable -- when they get a mortgage for an affordable home, they are buying into the economy, they are contributing to the economy of the City. These people are moving into neighborhoods that were abandoned in this town. And now, all this new housing is go on in Councilwoman Blackwell's area, Councilman Clarke's district in which I live, and area where Councilman Cohen lives and many members of City Council, that we have seen the Council President's district. All this affordable housing has gone on. All these small shops have gone on. This is not a place that's going to become a ghost town, as someone alluded in the testimony about an hour ago, that all of a sudden if we don't do this -- and I'm for and I was very encouraged by the Tax Reform Commission report that we do, like you stated, need to do a little bit more and do the right thing with lowering taxes. I don't anyone in this country anywhere that is in favor of more taxes. So that business that people just want to be taxers is not a real appreciation of where people are coming from. But we have all this small business growth in the City and, yes, we need to do more. But the working people of the City are being pushed aside on expressing their opinion. And I think that it is time again for us to go through a cycle of hearing from people that -- and who feels the burden the most? The working people of this City that do not necessarily all live in new market rate housing. I don't. It just happens that my neighborhood, like many neighborhoods, have appreciated.

I'm getting people calling me. I don't know how they get my home number. I've had the same home number for over 25 years. They're writing to me. They want to know if I want to sell my house. And I hear of a community that's got hundreds of people in New York City that would like to relocate in the City of Philadelphia. Yet, you turn on our City channel today and you hear as though we're leaving Dodge, that people are packing up, calling U Haul, "Get me the biggest truck. I'm moving out of Philadelphia." I might just live in a different world, but I don't see that.

We have been very prudent. This City Council -- and I've only been here a little bit over a year -- has been very prudent in the past 10 years or more, 15 years, to do the right thing and to do this in a way where taxes go down and services stay at the level that people need them.

So I just want to compliment you for waiting so long this day to make your views known to us and to the public.

MR. CRONIN: Thank you, Councilman. I just want to just say one thing at the end. As you said, we've struggled through and we've been listening patiently to a number of people that spoke, a number of business people and so forth and so on. I just want to say, there's a few of us around here that stood out in the rain the other day up in Harrisburg trying to talk about an effect on the City with respect to this transit crisis and what schedule to occur at the end of this month or the beginning of the next month with a 40, 50 percent fair increase and a 20 to 25 percent cut in service and the devastating effect -- talk about a devastating effect. That's where some hearing should be about what's going to happen there.

And it's interesting to me that a lot of these same people that are crying the blues, "Oh, if we don't cut this" -- incidentally, nobody wants to pay a tax. I don't know how we're going to do this. Nobody wants to pay. This group doesn't want to pay, that group doesn't want to pay. It's okay for us to pay, but they don't want to pay. It would have been great, let me just tell you, if the number of business people, the business leadership of this City or this region had been with us up in the rain in Harrisburg fighting to prevent what's going on, which is going to be a catastrophe for everybody unless it gets reversed, if they put on the line the same thing as the working people, the poor people and the labor unions, we wouldn't have a transit crisis today and this problem would be solved.

(Applause.)

COUNCILMAN RAMOS: Thank you, Madam Chair.

COUNCIL PRESIDENT VERNA: You're welcome.

The Chair recognizes Councilman Kelly.

COUNCILMAN KELLY: Thank you, Madam President.

Mr. Cronin, again, I want to thank you for your patience and your committee's patience for being here as long as you have. I just have a question. How many members are in Local 47?

MR. CRONIN: It's not Local 47, it's District Council 47. It's a common mistake. I'm not trying to be funny. We have nine locals in the Council, two of which are city locals that are represented by Cathy Scott and Mike Walsh here today. They can give you specific numbers

COUNCILMAN KELLY: What would be the

combined total of the unions, just a ballpark figure.

MR. CRONIN: About 3400.

COUNCILMAN KELLY: Could you tell me how many members -- I don't know if you remember this. Say about 10 years ago, what was the membership compared to today?

MR. CRONIN: About 3,000.

COUNCILMAN KELLY: So your membership has grown then?

MR. CRONIN: Yes.

COUNCILMAN KELLY: Because you've taken other locals or districts?

MR. CRONIN: It's grown for a number of reason. We're probably one of the only unions in the City of Philadelphia that has added members, generally speaking, to our union by going out and organizing, by acquiring other people, et cetera, et cetera.

MS. SCOTT: Councilman, if I can respond to your question.

COUNCIL PRESIDENT VERNA: Excuse me. Please identify yourself.

MS. SCOTT: My name is Cathy Scott.

I'm president of AFSCME Local 2187. We represent the non-supervisory professional workers in the City of Philadelphia.

I would say probably my local is the local that has grown the most over the last 10 years, but, in fact, that growth has been driven by mandated increases in staff. For example, in the Department of Human Services where children and youth investigations are required, there has been close to 400 additional staff people added there because of the mandated services for investigation of abuse and neglect.

When I look at the other areas in my membership, there is a sharp decline. For example, if I look in the Health Department and going back, you know, there was a promise that was made when the Philadelphia General Hospital was closed that there would always be the clinics to provide treatment for medically needy people. If you look at those clinics today, those clinics are in trouble. They are losing doctors. They are using nurses. The period of had time in order to get appointments to address health problems that people have are becoming very long. For example, for someone with an infectious disease, instead of taking four weeks to be seen and get treated in a referral, it is now 8 to 10 weeks to be seen. So where we do see increases in the mandated services that are paid for a hundred percent by the State, in the other services that the City is providing, there is a sharp decrease in the number of members in those areas.

COUNCILMAN KELLY: There's a sharp decrease, you said?

MS. SCOTT: Yes, in other areas that are not funned through state or federal monies.

COUNCILMAN KELLY: Okay, that's where I was leading to.

Now, most of the members in your local, would they be considered City workers as such?

MS. SCOTT: Yes. The large majority of my membership is --

COUNCILMAN KELLY: Are they required

to live in the City?

MS. SCOTT: Absolutely. The one area where people do ge exemptions, and Tom was referring to that, is there is a difficult time getting clinicians and physicians who live in the City of Philadelphia, so some of them do have exemptions.

COUNCILMAN KELLY: Now, getting back to Mr. Cronin and District Council 47, how many employees did you have in just District 47, say, 5 years ago or 10 years ago? Have you been losing employees; and if so, how?

MR. CRONIN: No, I would not say that we've been losing employees because we have been -- other than the addition that Cathy has talked about, in most cases, we have gone out and organized new groups of people. We're attempting to --

COUNCILMAN KELLY: Let's put it this way. How many City employees have really lost their positions through attrition or layoffs in the City in the last five years or so?

MR. CRONIN: Well, I think the City'S figures were something like 1600 or

1700. I'm not sure exactly on the exact amount.

COUNCILMAN KELLY: And in your mind, is this going to continue? Is this a trend, in order words? Do we loss a hundred people a year and they're not filling the positions?

MR. CRONIN: Let me just say this. It certainly appears that way. If you talk to the folks that run the public libraries, run the recreation centers, it certainly doesn't seem like we're adding people; it seems like we're losing people and we're continuing to lose people. And what we're worried about is that this trend is going to continue so that the services will decline even further.

COUNCILMAN KELLY: Well, I think that's what we're all concerned about. And I think that we have to make decisions here on how to stop this trend. And in my opinion we're losing because we're probably not spending wisely or whatever. But we have to make some decisions here and you may have to bite of bullet a little bit.

MR. CRONIN: Wait a second. We've

been biting the bullet. We've been biting the bullet year after year after year, contract after contract.

Now, let me say just say one other thing, Councilman, when you said that. This union, District Council 47, is the union that came up with RGI, we're talking about way back in the '80s, as a way to save the City money, as a way to improve efficiency, what the Governor was talking about earlier about that he could do it, he could show where efficiencies could be made if you cut overtime, if you cut this, if you cut that. I listened to that testimony. We put that position out in the '80s in terms of RGI. It was rejected by Administration after Administration. Where the second Rendell Administration when it came into effect and was used, we began to save money, get more efficient, et cetera, et cetera. So we've been biting the bullet. We live here. We're hurt when there's a cut in services. We're hurt when there's layoffs. We pay the taxes. We belong to the religious organizations. We belong to the civic organizations. We're the life blood, as far as I'm concerned, of the City. We're the stakeholders of this City.

COUNCILMAN KELLY: I believe that, but I'm getting back to my point. My point is you're losing people over the last 5 years, probably 10 years. It's a trend that we have to do something about. We have to stop it, but we have to stop it in many different ways. Evidently, we're not spending wisely, we're not using everything in our disposal. One of the things that we have to look at is to get additional businesses in here, get additional people to move into Philadelphia, we're going to have to do something about it. Now, we're going to have to --

MR. CRONIN: You don't do it by cutting services. You don't do it by closing libraries, health centers, et cetera, et cetera. I don't think that's the way you do it.

COUNCILMAN KELLY: Well, I'm not saying that, but we're going to have to either raise the revenue or we're going to have to live within our means. And that's the hard, cruel fact that we're going to have to face.

That's I have, Madam President.

COUNCIL PRESIDENT VERNA: Thank you, Councilman.

The Chair recognizes Councilman Cohen.

COUNCILMAN COHEN: Thank you, Madam President.

First, let me say I'm concerned by the fact that for the first time during the day there is a real discussion going on about the advisability of this bill. Up until now, the testimony has been either proposals supporting it or by individual businesses that are adversely affect. But the panel gathered before us, I know from my personal experience, knows more about City government, more about what proper tax policy ought to be for citizens than any group that's testified so far today. They represent a broad section of opinion, and I want to ask the President to consider what we can do. Again, I find they're at the tail end of the testimony. All day long they've --

COUNCIL PRESIDENT VERNA: Councilman, they're not --

COUNCILMAN COHEN: Please, Madam President. I'm not making any criticism of your office. But I'm saying we've got to reconsider how we schedule things, because right now what's happening is we're talking to ourselves. The only people here are people opposed to this bill, and the other people are not being exposed to testimony which I believe is very relevant to the issue. And I would like to ask that if this group feels that it needs more time later to discuss this at a time early, that we ought to recognize their request. I'm concerned that what, to me, is the soundest view being presented all day long is occurring at the end of day.

Now, I'm told that our procedure, and we try to be fair here, is that people are named in the order in which they're called for discussions. But the fact that is that when a sponsor of a bill, he is in the best or she is in the best position to know when the hearing

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is going to be held first and to occupy the prime seats. It takes a while before the public gets to know what's going on and request a discussion at the table.

So I'm just asking the President if we can reconsider some methods of scheduling so what, to me, is the important testimony does not take place in a room where we're talking to the people who just believe us.

All day long we've listened to those that are trying to convince us of something we believe is bad and wrong. But when it comes time for us to express our concern, we talk to ourselves here. That's not the purpose of public hearings. The purpose of public hearings is to have an exchange of views, let each side try to influence the other and that's how we'll know better.

Now, I'm having great difficulty understanding the difference between the proposals in this bill and the President Bush give-away of the trillion dollars of taxes to the rich and to businesses. What's the difference between making a tax cut later and giving people back tax money, which no longer is their money but you call it their money just to make it look better, and cutting the tax in advance? I can't understand any difference between this proposal that exists today that's being argued for in this bill and the Bush give-away bill so that he now is in a position -- the President says we have no money for domestic needs or for things that are not absolutely essential as he sees it. He's stripped the treasury of the ability to do services.

I find the same thing happening, because what happens when these taxes get cut is nothing happens to business. Nobody says we're going to cut down on economic building of any kind. In fact, they use the cut as a further reason to give more money to economics, but what they begin to cut is human services. The fact that the cutting already has occurred to the point where it seemed reasonable to suggest to somebody and seemed reasonable to the Mayor to accept this view about the City giving up, for example, bulk removal. I can't get out of my mind the fact somebody must -- maybe we have a whole series of people who are out of their mind to think of giving up a service that older people have no way of dealing with, of a City government saying to people, "You're going to have to take care of getting rid of your own refrigerators, your laundry machines and anything big." And they say it to older people who have no means of doing anything and become victimized by scavengers or else we're going to have our lots loaded with refrigerators that are going to be dangerous to the lives of kids. Now, for a City to even propose that is out of this world.

Now, it seems to me that we want to reschedule things differently, but I'd like somebody to explain to me the difference between Bush's give-away to the rich, to the business corporations, the trillion dollars in taxes already collected and our refusing to collect money from business. I can't see any difference between the two. If any of you have any thoughts on that, I'd love to hear them.

Tom Cronin, let me address you first.

MR. CRONIN: Let me just say that recently I just down loaded our international's research on the proposed 2006 Bush budget in every category, whether it's worker training, whether it's housing, whether it's medicine. It is just devastating. And the part of it that gets to me is, what is the impact? I think another question has to be raised is if 25 percent of that Bush budget goes through, is enacted, the 2006 budget, what is going to be the impact on the City of Philadelphia? Because there is going to be an impact.

At the same time that you continue to cut taxes, what's going to happen? Well, in our opinion, again, based on the analysis not that I did but other people did it's going to devastate the City of Philadelphia in so many different ways. It is unbelievable. I'll be more than happy to share that analysis with you. I've raised it with the AFL/CIO,

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saying not only should we be here and being critical, we ought to be in Washington and being critical about this, because this is taking our country down the tubes. You know, whether it's transportation that we're facing again very shortly or all of these other things, housing, some of the these other programs that different Councilpeople here involved with. It's just devastating.

And there isn't much of a difference. To me, what seems to be a Bush program that's being enacted all over the country, and it's insane. Nobody wants to pay, but everybody wants the services. How are you going to do that? And people say, well, you know what, if we cut back on overtime. I heard that being said earlier. Well, why is there overtime? Why is there? Well, one of the reason is there's not enough people because one of the Councilpeople said it right, that if you begin hire a new employee, there's certain cost to that. Maybe you have to pay healthcare. Somebody else talked about -- one of the business people talked about personnel cost being so high. Well, what are the health and welfare care costs because we're not getting rich in terms of the wages that we're picking up in the City of Philadelphia. And those wages that we are getting through hard bargaining, as you all know here, are being eaten up and taken away by the healthcare costs which we have very, very little control over. In fact, you guys have said that we're the best run health and welfare operation in the City of Philadelphia in terms of how efficient we are.

COUNCILMAN COHEN: The facts very clear and the City Administration has recognized that fact.

But what I'm concerned about is I think that there is an idea in the United States to go back to the pre New Deal days. I think the President seeks to dismantle every element of service to the human people and to go back where each of us have to depend on our own resources to manage to live. And the New Deal is being dismantled step by step. Social Security in the process of being endangered and threatened.

Now, I think the same thing is happening here at a local level. And to my colleagues from the Republican Party locally, I appreciate what Councilman Kelly said before. I think he's dedicated to maintaining services and I think we've all got to ban together apart from parties, work across party lines to work together to see that human services are maintain and where necessary are increased. The thought of moving back on human services is a terrible thought, and I want to fight that every inch of the way. Therefore, I am led to the conclusion that this bill is premised upon the same economic theories that govern President Bush in his give-away of the tax trillion dollars that he gave away in order to have an excuse to people that there is no money for anything for human services. And that's the reason I've been waiting all day to hear for explain differently, but I don't see any difference between the two.

Thank you, Madam President.

COUNCIL PRESIDENT VERNA: You're welcome, sir.

Who is going to testify next?

Please identify yourself for the record.

MS. WARD: Council President Verna, thank you for the opportunity to speak. My name is Sharon ward. I'm the child care policy director and coordinator of advocacy for Philadelphia's Citizens for Children and Youth and I am a co-chair of One Philadelphia.

To PCCY stands in opposition to bill 040767 which would completely eliminate the City's business privilege tax by 2017. We share with all of you a belief in the need strengthen the City's economy, but we found total elimination of the BPT as a misguided approach which we fear with impede rather than enable the City to move forward our shared goal. The proposal is too costly and will lead to the continual erosion of City services and diminish the quality of life for residents, workers, and businesses. There is strong evidence to suggest that elimination of the taxes will not produce the economic impact that proponents claim. The City's economy is complex, its problems are complex, the impediments to economic grown multifaceted. Eliminating the business privilege tax will do little to improve the City's economy and will instead rob the City of the resources it needs to support policies that will over time grow the economy and improve the quality of life. The first real issues s are tax cut real strategy to economic growth.

Councilmembers have received a copy of a book by Dr. Robert Lynch, a Maryland economist called, "Rethinking Growth Strategies," and Dr. Lynch is one of a growing number or economists who have challenged the effectiveness orthodoxy of tax cuts as an approach to business development.

Let me just highlight a couple of things in it. Dr. Lynch concludes that state and local taxes are a very small portion of bliss cost less than 1 percent. When you look at a net income tax, for example, you see 6.5 percent, it looks very high. But when you put that into the total cost of doing business which include a lot of things, including services like security services and other, it's a very percentage of business cost. He also argues that the things that really have generated economic development in cities are spending money, not reducing our ability to do so. Investments in public service such as public safety, education, and infrastructure are a better way to go.

I just want to remind you that Andy Castle, columnist for the Philadelphia Inquirer just last week quoted another economist from another university saying essentially the same thing. Businesses don't make decisions based on their tax burden and the quality of investments in services really make a big difference in bringing people into a municipality.

Dr. Lynch came at this like other economists thinking that reducing taxes stimulated economic growth. He was surprised and so were most economists to learn that that didn't happen. The further analysis showed why. When cities cut taxes, they cut services and the resulting shrinkage in economic investment undermined the economic growth. He argues that current economic analysis, and I add E Consult's analysis for the Tax Reform Commission, will only find a statistically significant effect on business activity if public service levels are held or officially constant.

Well, we know in the City of Philadelphia public service levels are not held constant. They're diminishing.

In the economist world, you can make a neat assumption and make a neat model, the strategy works. In the real world, declining tax revenues results in declining services.

Let's say for argument sake that Philadelphia can maintain service levels. Timothy Bartic (ph) is a senior economist for the Upjohn Institute found that a 10 reduction in business taxes will generate a 2 1/2 percent increase in business activity. So what does that mean for the City? Well consider it this way, you set aside $10,000 for your child's college education. And when it's time to send Junior off to school, you're left with $2500. Not a good investment. In the end, you have to find the over $7500. Another way to put it is this: For every dollar in new economic growth that will come in from cutting taxes, the City of Philadelphia is going to spend $3. We've talked and heard a lot about efficiency today. How efficient is it to spend $3 to make one dollar? We think not. In Philadelphia's case, we'll make up the difference in two ways, through further erosion in services and quality of life or through the increase in property taxes for our residents.

Dr. Lynch makes one final point that I really want to highlight because it's relevant today. Empirical evidence looking at studies what happened when cities did cut taxes found that within metropolitan regions like Philadelphia and Montgomery County that tax cuts were effective in moving businesses from low-education, low-growth communities to high-education, high-growth communities like

Lower Merion, but the reverse isn't true. In short, tax cut strategies haven't been successful in moving businesses from the suburbs to the cities. While individual businesses might suggest that declining taxes will draw them over the line from City Line Avenue, the evidence suggests that they just don't make leap.

I also want to point out that I looked at the chart that Governor Schweiker had put up earlier today that showed comparison between job growth in the City of Philadelphia and job growth in the surrounding counties. I spent 20 years in Albany, New York, including 8 as a member of City Council there, and I can tell you that if you put that chart in the City Council Chambers in Albany, you would see exactly the same thing. Jobs went down in the city, growth occurred in suburbs. And Albany has no wage tax and it has no business tax. The point is that the problems of older cities are unrelated to their tax structure.

The second question I want to

address, and then I'll move on and let our other speakers talk, is really a question about whether or not we can afford to eliminate taxes on business. I just want to point out the business privilege tax will generate about $309 million. That's 14 percent of all locally generated revenue and that's greater than the budgets of the Free Library, the Fire Department, Fairmount Park and the Streets Department. Even the gradual phase-out of this tax will leave the City scrambling just to pay for the cost of those services and leave no room to meet emerging needs.

One of the questions that's been asked is how many jobs have we lost in the public sector. According to the US Department of Labor, City of Philadelphia has lost 10,000 public sector jobs since 1994.

We've heard an argument today that the decline in services isn't related to previous tax cuts, but the City has already spent more than a billion dollars in tax cuts and it seems we have very little to show for it. So what's the impact on our budget? New classes for police and fire service have been suspended. And when constituents ask you why the City is no longer recruiting and training new first responders, it would be fair to say to them, it's because we need to pay for the tax cuts.

The greatest impact of the tax cuts will be felt on the City's property owners. The tax cut proponents acknowledge that their plan is a shift, a shift in the cost of paying for City services from businesses to property tax owners. Those taxes are expected to increase 40 to 50 percent, maybe more, over the life of the plan. When seniors and lower income families ask you why their property taxes are increasing, it would be fair to tell them, it's because we're paying for the tax cuts.

In 2004, the majority of Pennsylvania counties had to raise local property taxes linking the need for additional revenue to fund mandated services like we've heard about today and to address shrinking federal resources. Yet under this bill, we have no ability to increase taxes, and every dollar that we have will go to pay for the tax cuts.

The federal budget -- and this is to address Councilman Cohen's question. The federal budget for 2006 and beyond includes cuts to housing, Amtrak, education, child care, head start, a total 158 programs. Congressional budget committees are expected to recommend cuts in entitlement programs like Medicaid and food stamps and to put caps on other domestic programs. Why? To pay for their tax cuts. There really is no difference in what's happening at the federal level, the state level, or in Philadelphia. At every level, federal, state and local businesses want out of taxes. They don't want to pay for the shared cost supporting our nation, our state, or our City. In some states like Iowa, business taxes are so low, there's barely anything to cut, but lawmakers are still looking for ways to cut taxes. Reducing business taxes is an idealogical strategy to reduce the size of government. It's not a sound approach to economic development and it's not fiscally responsible.

One Philadelphia believes the City overall economic development policy should strengthen our economy, create quality jobs, and build a livable neighborhood. But we think the tax debate has been taking place backwards. We have five goals for this year that we believe the Council and City ought to be engaged in.

First, we think the debate shouldn't be limited to simplistic solutions around tax cuts. We want to broaden the debate about the City's future to include services, investments, and tax fairness.

Second, we need to engage the community in discussions about improving the environment for residents and for businesses.

Third, we need to have an accurate and forthright discussion and examination of the impact of revenue reductions on property taxes and services.

Finally, we need to address

alternatives. Strategy investment and services and improvements will do a better job, we believe, in building the City's economy.

We believe that we should stop enactment of the tax cuts until we've had that dialog, we've looked at the alternatives and we understand the impact.

I want to thank you on behalf PCCY and One Philadelphia and urge you to vote against Bill 676.

COUNCIL PRESIDENT VERNA: Thank you very much.

(Applause.)

COUNCIL PRESIDENT VERNA: The Chair recognizes Councilman Kenney.

COUNCILMAN KENNEY: Thank you, Madam President.

Is it fair to characterize your testimony that you believe that the main reason that someone decides to stay in a city or leave a city is the level of services?

MS. WARD: I think if you talked to people who left the City of Philadelphia, many of them would tell you it's because of services, mainly schools, for example.

COUNCILMAN KENNEY: So if I follow that to its logical conclusion, it would probably be in our best interest, in your opinion, to raise taxes and provide levels of services that are unheard of around the region and everybody will come back.

MS. WARD: Well, I think what you need to do is be fiscally responsible. And I think what you need to do is to have balance. I think it's pretty clear that people make decisions on a complex set of things. They make their decisions on public safety, they make their decisions on quality neighborhoods, they make their decisions on the cost, whether it's an individual or a business. And I think you just have to address all of those things.

COUNCILMAN KENNEY: But if the level of services are not adequate now to retain or attract citizens, then we have to improve the level of services. And the only way we do that is by raising more revenue, i.e., taxes in order to do that. I mean, that's the logical conclusion. If I decide to leave the City because I don't like the schools and the schools need more money, I should raise the real estate tax to provide more money for the schools and then therefore I would stay.

MS. WARD: I think that investment strategies economist would say work, and I can't tell you where you're going to get that money from, but there are a variety of examples of states and cities who made investments in infrastructure and workforce development, and those are things that actually generated a better return.

COUNCILMAN KENNEY: But didn't we raise wage, real estate, and business taxes for a 20, 25-year period and saw a commensurate loss of about a half million people?

I'm willing to accept your premise, however, the facts would indicate otherwise because we raise taxes, provide services, and we still lost people. And now you're saying that by reducing the tax burden we're going to decrease services and therefore -- what do we need to do? At the end of your testimony, the only logical conclusion is I should raise taxes and have the best services there are in the region and everybody will move back in.

MS. WARD: Well, let me just say this, I think that your linking between cutting taxes and cutting services is probably authentic, but --

COUNCILMAN KENNEY: That's not my link. I said earlier, the reason that we're in the service situation we're in now is not tax cut, it's run-away spending for five years. That's my personal opinion. It doesn't mean I'm speaking for -- I'm not speaking for any member of Council, I'm speaking for myself. I think we spent -- there's nobody up here complaining about the $100 million or more we were spending in overtime for police when Operation Safe Streets, which is a questionable program as to whether or not it was even successful, but nobody said, "Wait a minute. What are spending all that money there for? We should be spending it on schools or we should be spending it on other services."

MS. WARD: I think, Councilman, what we're trying to say is that it's not such a simple proposition. People left the City of Philadelphia for a variety of reasons. One of the ways in which cities responded to try to address and that was to increase investment. And in some cases they've had success, and in some cases they haven't.

COUNCILMAN KENNEY: Increase investment means increase taxes?

MS. WARD: Well, if you increase taxes and you spend it on putting police in neighborhoods so kids don't get shot, yeah, that's an increased investment --

COUNCILMAN KENNEY: But the problem was the investment we made in that particular -- the murder rate went up. We have to quantify the results at some point in time. The murder rate is higher after a hundred or more million dollars were spent. But that's not your problem or your issue because you didn't do it. My point is, at the end of your -- the conclusion I would have to raise is it would be okay for us to raise taxes to improve services because that would keep people here and attract people here.

MS. WARD: I think what we're trying to say is that you need to maintain the quality of life for citizens and businesses because even if you eliminate all of the taxes, they won't stay.

COUNCILMAN KENNEY: Theoretically, you believe that if this was a tax-free city people would move?

MS. WARD: I'm suggesting that if you eliminate all business taxes and you concomitantly reduce police services, don't pick up the trash, you will have no business taxes and you will have no businesses.

COUNCILMAN KENNEY: I think the purpose of us trying to fix the tax structure is to have more people employed in the private sector than we do now, and that's the problem. Employment is important, it's valued, and it's dignified, it's a good wage, and people make a living; however, I think when you have a city where the majority of people are employed in the public sector as opposed to the private sector, I think you have a recipe for disaster. And in this city, the largest employers, I think, are the University of Pennsylvania and the City of Philadelphia. And that is not a good formula for success.

MS. WARD: I think, Councilman, that's true. But I do want to go back to what Governor Schweiker said earlier, which was part of this is a regional issue. If I work in the City of Philadelphia and jobs are created in Lower Merion and I work there, I still pay wage taxes here, so job growth outside the City can benefit the City. 25 percent of the residents of this City work in other counties.

COUNCILMAN KENNEY: Job growth in the City benefits the City too.

MS. WARD: I think that that's true. I'm simply saying that it's a somewhat more complex issue.

COUNCILMAN KENNEY: Respectfully, I think this comes down to a philosophical difference in economics. There's one side that believes that raising revenue and spending it in a good way is the recipe for success; and the other side believes that giving business the ability to grow and expand and move here and employ people in the private sector to expand that tax base is the way to go too.

MS. WARD: I think what we're saying is that we need to have a broader discussion because taxes may play a role in things, but services and the ability to fund those services play an equally important role. In fact, the evidence is such that we've seen that the taxes play less of a role than you have heard today.

COUNCILMAN KENNEY: The problem is -- I will agree with you on supply side philosophy it does not work nationally, because no one's moving to France because they don't like their federal tax rates or to Canada or to Mexico. However, I think in a local argument, I think supply side does work because it's easier to move across that City Line Avenue and the reap the benefit of having a better tax environment. And I think the supply side -- we need to be on a level playing field with them, and I don't think we're ever going to turn the corner unless we come back that way.

MS. WARD: I think intuitively that's true, but the evidence of the economists who have looked at it have found that that's not as true as you might believe.

COUNCILMAN KENNEY: And there's probably an equal number on the other side.

Okay, thank you.

COUNCIL PRESIDENT VERNA: Mr. Stein, how are you? Please identify yourself for the record.

MR. STEIN: I'm Jonathan Stein, general counsel at Community Legal Services and also a former member of the Tax Reform Commission.

I strongly believe -- and I have copies of my written testimony which I won't read all of. I strongly that Bill 040767 is a fiscally imprudent measure and, although well-intended, would fail to achieve its objectives while depleting the City of needed revenues for essential services.

Last Saturday I attended the funeral and memorial services at Greater Ebenezer Baptist Church of one of the noblest of anti-poverty and human rights warriors in our City's history, Louise Brookins.

Mrs. Brookins was for the past 30 years the director of the Philadelphia and Pennsylvania Welfare Rights Organizations. She followed her father's counsel who advised, no man can ever ride your back if you don't bend over. And was especially for those in government the beacon shining her light on the needs of the least fortunate in our society.

I was thinking that if Louise Brookins was here today and heard Mr. Schweiker and Brett Mandel and others speak earlier in the day, what would she say at this hour about the testimony she just heard and a proposal in this City Council to end any responsibility for business to pay their fair share for needed government services. Mrs. Brookins would have known that her own niece, a Philadelphia City Health Department employee with a distinguished 13-year record of service for the health needs of children and pregnant mothers had just three weeks ago been laid off due to City budget cutting. But I don't think Mrs. Brookins would have pressed upon you today this personal story from her own family. Rather, she would have asked broader questions that relate what is the purpose of our government, what kind of City do we really want to live in, and why have you been elected to your offices here?

Ms. Brookins, if here, would have asked, how can you think of totally eliminating the business privilege tax when currently a health uninsured woman with suspected breast cancer may wait for up to three months to get a medical appointment at a City Health Department district right now?

Ms. Brookins would ask, how can you think of totally eliminating the business privilege tax when currently it takes two to three months for the L&I Department to do a housing code inspection when there's a ceiling falling in, exposed wiring or lack of water, all of which threaten life and health; and when the L&I Department no longer take re-inspections of such houses to ensure violations are corrected?

Ms. Brookins would ask, how could you think of totally eliminating the business privilege tax when currently 20 library branches are being closed in the mornings for senior citizens and others and with no professional librarians planned to ever staff those branches?

Ms. Brookins would also ask, how can you think of totally eliminating the business privilege tax when currently in a multi-billion-dollar City budget the City just spends and spreads out $2 million to 225 arts organizations when many of these are the only ones serving the poorest areas of our City?

And Ms. Brookins might finally ask, how can you think of eliminating the business privilege tax when we know, as acknowledged by the supply side economists who had advised the Tax Reform Commission that, quote, supply side effect of these tax cuts will surely be an increase in the real estate taxes? I'll repeat that, an increase real estate taxes that will come from these tax cuts paid for by the elderly on low fixed incomes and other homeowners in the City.

Now these questions could continue. But the point it obvious. The state of current city services is so failing and so fragile that they're already on the edge of the precipice. Do we seriously want to end a entire revenue stream to the City that ensures further declines in City services and the quality of life in the City? Have we so quickly forgotten the warnings of the advisors and Professor Inman at Wharton who advised the Tax Reform Commission that whatever hypothetical supply side benefits the City could reap from tax-cutting, all these benefits vanish when public service and infrastructures are weakened.

Well, perhaps for some who do not need health centers for their cancer detection or do not need L&I to ensure that their water is flowing or their ceilings, they might argue that the means, that is the drying up of City revenues and the depleting of City services, is worth the end, that is assume job creation and economic development. Fair enough, this dream. But at least this rosy assumption should be subjected to our critical thinking and analysis. Unfortunately, these special interests in the City have heretofore monopolized this debate and prevented a fair and objective scrutiny of the tax cuts to economic development hypothesis. I saw this personally on the Tax Reform Commission when my request to obtain more objective research of the pros and cons of these tax cuts from academics outside the City were quietly deep-sixed by the Tax Commission. But it's not too late to hear another side and ponder whether or not in fact this tax-cutting emperor indeed wears no clothes.

Professor Robert Lynch and Sharon Ward just said as one such voice and appended ed to my testimony is Op Ed published in the Inquirer last month -- his book has been distributed to all in City Council. And he says in summary is hundreds of studies confirm that local taxes are not a significant consideration when businesses decide where to locate and invest. More important, and this comes from businesses themselves, are availability of qualified workers, proximity to customers and business markets, and access to raw materials and supplies. Public services, he says, also matter, including schools, transportation, healthcare, police and fire protection, recreation and cultural amenities, and institution of higher learning. He reports that research shows that business may invest only a small part of a tax cut they receive and not necessarily in the City that gives them the tax cut. He concludes of the public spending reduction caused by the tax cut isn't necessarily replaced by private investment. And he suggests instead of wasting money on tax incentives and tax cuts, the city can invest them in real services and infrastructure that will really in the end support businesses in the City.

So whether one looks to Professor Lynch's counsel or hears the voice of Mrs. Louise Brookins in this room, the ending of a business privilege tax would work against the whole purpose of having a government to protect people and maintain a decent quality of life in the City. And we urge that this bill does not get passed by the Council and that other means to promote business growth are pursued and studied by the City Council. Thank you.

COUNCIL PRESIDENT VERNA: Thank you very much.

Our next witness, please. Good evening. Please identify yourself for the record.

MS. GAVITT: My name is Tammy Gavitt, I am Secretary of the Philadelphia Chapter of NOW. I'm also the Chair of the Reproductive Rights Health Committee for the chapter and the newsletter editor. I am also a Democratic Committee Person in Ward 23, Division 4.

Thank you, Council, today for

listening.

Tax reform in Philadelphia is most certainly an important and significant issue for the National Organization For Women. Women in Philadelphia compose over 50 percent of the taxpayers in the City. We're te workers, the heads of households, the providers, and the caregivers. The belief of the Board of Philadelphia Now is that such a seemingly bold and rash move as to cut the business privilege tax in its entirety could have severe and dire consequences in the immanent future for the residents of Philadelphia. With the elimination of the business privilege tax, cuts in vital City services most certainly will follow. Even without the elimination of such a tax, we already feel the pains of our services being cut. For example, the recent elimination of librarian jobs and the scaling back of hours of several libraries as well sa the proposed cuts in the police and fire departments.

While we believe that a significant tax burden is bore by the ordinary, typically non-affluent residents of the City, we believe that Philadelphia's tax structure is not entirely to blame for the supposed shortcoming of not being able to attract businesses and residents to the City.

Several studies over the years have specifically delved into the reasons for the exodus of populations from major cities, and not just Philadelphia, to outlining suburbs. Quality of life, better schools, and more services were definitely factors for many who relocated to the suburbs.

Another grave concern to our organization is increases to the real estate tax. Based on an economic model, it has been proposed by the Commission that it would make up for the cuts in the wage and business privilege taxes through increases in the real state taxes resulting from higher real estate values. However, such increases would be quite a burden for Philadelphia's large early and poor populations. Even now, some long-time residents live in the neighborhoods that have experienced gentrification note that they have seen a 100 percent increase in their real estate tax. For instance, I live in a very changing part of the neighborhood in Philadelphia. There are many households run by single mothers and elderly who could not really afford an increase to the real estate tax.

Clearly, the tax issue and structure in Philadelphia is complex and, like all things being complex in nature, requires thorough examination and consideration before any tax hikes and/or decreases are implemented. We are not opposed to all tax increase and/or decreases. We realize that in order for Philadelphia to gain a competitive edge, tax reform is necessary. For example, women compose nearly 50 percent of privately-owned business in the nation, with 1 in 11 women in the US being a business owner. The business privilege tax is a significant burden on women wanting to do business in our City, and we most certainly want more women-owned businesses operating in Philadelphia. However, what we would like to see and what all Philadelphians we believe would like to see is fiscally responsible tax reform, a harmonious balance being struck with tax increases and decreases while maintaining City services. We believe a prudent -- that City Council weigh these considerations as well as those offered by the other individuals in today's testimony and implement those tax reforms that best meet the need of the population of our City.

Thank you so much.

COUNCIL PRESIDENT VERNA: Thank you.

Our next witness.

Good afternoon, President Verna.

COUNCIL PRESIDENT VERNA: Good afternoon. Or should we say good evening.

MR. SAMPSON: Almost.

My name Maurice Sampson, II. I live in Mount Airy. I'm the President Niche Recycling Waist Reduction Systems, and I'm here today representing the Sustainable Business Network of Greater Philadelphia. I want to thank you first for letting me speak today. I'm going to brief. I also want to

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make clear that the Sustainable Business Network is not a member of One Philadelphia. And I'll make that clear in just a moment.

The Sustainable Business Network of Greater Philadelphia is a network of local business people, professionals, social entrepreneurs, investors, not-for-profit leaders, and government representatives. Members of SBN are committed to a triple bottom line: People, planet, and profit. We measure the success of a business by its contribution to the community and its impact on the environment as well as by the money it earns. Together, we are dedicated to building a local living economy, an economy that ensures economic power, resides locally, sustaining healthy community life and natural life, as well as long-term economic viability.

A living economy is guided by a set of principals that I'm not going to go into here, but I have attached the seven principals to my testimony for your review.

As Chair of SBN's Policy Committee, I have been asked to facilitate discussion among our members to take a position on tax reform in Philadelphia and, specifically, the elimination of the business privilege tax. As I come here before you today, that process has been underway since September. Over the next month, members have SBN Policy Committee will be meeting with former members of the Tax Reform Commission, Philadelphia Forward and One Philadelphia, seeking from each to understand how their vision of tax elimination and tax reform supports the principals of a living economy.

In April, we will be holding a meeting of our members and feature a forum on tax reform open to the public to hear presentations and discussion among these very same representatives. It's from this process that our steering Committee will take a position on this legislation. It is our hope that our timetable to explore this issue and yours to move this legislation will allow you to consider our position.

The subject of tax reform is very complex with serious long-term implications and, from our perspective, is proceeding with disturbing speed. We urge caution in the time to better understand the issues before you vote. We also want to invite each of you and the public to our April meeting, date and place to be announced.

Now, while today I haven't bought a position as an organization, I do offer this perspective from Judy Wicks who is the Co-Chair of the Sustainable Business Network of Greater Philadelphia and the owner and operator of the White Dog Cafe. She says, "I look to our local economy as I do my own business. To increase profitability, I look at both to decrease expenses and increase sales. If we look at only decreasing expenses, in this case decreasing taxes, we miss the other side of the equation; increasing sales. Decreasing taxes could actually end up decreasing sales and, therefore, profitability by decreasing services all businesses depend on. As a business owner, I pay little attention to taxes and concentrate instead on how to increase sales. I am happy to pay local taxes that improve the quality of life in our City because this brings more people to live, visit and do business here, and that increases sales for my business and builds our local economy. I believe the City should focus less on decreasing taxes and pay more attention to increasing sales for local businesses. This can be done by improving services and also by launching a Buy Local Campaign to directly increase the sales for locally-owned companies, a strategy other cities have launched successfully to support local business ownership and enhance local economies. Philadelphians are best served by policies which benefit locally-owned businesses yet large publicly-traded corporations are often given tax incentives which provide an unfair advantage over local companies. Let's cut out those tax breaks and be sure that large corporations pay their fair share for services we all depend on to do business in the City. Tax reform should benefit local business ownership where cutting taxes across the board would only rob our City of income Philadelphians deserve and need. It is smarter to keep the tax dollars flowing into our City to improve the services critical for a successful business climate and thereby increase sales and profitability for all businesses."

Thank you very much.

COUNCIL PRESIDENT VERNA: Thank you.

Are there any questions or comments of this witness?

Councilman Ramos.

COUNCILMAN RAMOS: Thank you, Madam President.

You're saying that you're a business person, right?

MR. SAMPSON: Yes, I am.

COUNCILMAN RAMOS: And you represent a business group?

MR. SAMPSON: Yes. Sustainable Business Network is a business organization, yes.

COUNCILMAN RAMOS: I think you're the first entrepreneur that's come here today

-- I could be wrong, Madam President, because I was gone for about an hour in the beginning. But I think you might be the first entrepreneur to come here and say that we should be careful with the reduction of the BPT; is that so?

MR. SAMPSON: Yes, that's so.

COUNCILMAN RAMOS: Could you explain to me without reading your statement, can you again reiterate in very simple terms why you're against the tide of what we have heard a number of hours earlier today?

MR. SAMPSON: Actually, I have to make the distinction between Judy's comments and what I said. The Sustainable Business Network is in the process of looking at this issue. We got into it in September because Brett Mandel came to us from Philadelphia Forward and asked us to support the elimination of the business tax. Within our organization, we feel the necessity to discuss this among our members. So I started looking into this subject as this train felt like it was pulling out of station because it was almost a vote on this before we even had a chance to explore it. What I said here was, what we are doing is looking at all of the issues, that in the next month a member from One Philadelphia, Brett from Philadelphia Forward and also someone from the Tax Commission is all coming to talk to us. And we're having a meeting of our members to discuss this. As an organization, we haven't taken a position.

I will tell you that there was an immediate concern when this first was brought to us because we had a sense that there was some level of responsibility that we have as business to support the City. And we didn't understand what was presented to us, what we were asking to do consider when we were asked to eliminate business taxes. The subject just was complicated for us to simply make a decision without looking into it. So what we are doing now is looking into it.

The part of the speech here you heard about the desire and the willing to pay taxes is Judy Wicks' perspective. Her point is that the quality of life that is afforded by paying business taxes, in her opinion, is what makes me want to come to the City and it helps drive business to her business. And she is willing to pay that cost if it's going to benefit and give that kind of -- that's going to meet a need in her business in order to be profitable. And that is Judy's unique perspective.

I had hoped to have actually gotten her to be here. This speech actually represents a compromise. I didn't want to come. One Philadelphia --

COUNCILMAN RAMOS: I'm glad you came. You sure have given us a different perspective from a business person and being in a business association. That's very important to us because I believe this is the first time I've heard all day that a business person has come forward and say, you know, we need to take a closer look at this. And I've heard what you just said put differently, you know, if you want to live in this good City of Philadelphia, then there's certain things that come with the it because of conditions. I think we're all -- I know no one wants more taxes. I don't hear anyone say, "Yeah, I want more, give me more taxes." People are all for lower taxes, and that's what this debate is about, how far should we reduce taxes.

MR. SAMPSON: I think the debate within SBN is, what is our responsibility? Would we like to pay less taxes? Of course, we would. Would we like to have less cost? Of course we would. But what is our responsibility? It doesn't help if what we do is eliminate taxes and kill the goose at the same time. We live here. The viability of our business as local, small business people is the viability of the City. What we want to make sure of when we take a position on this is that we take a considered position on this. And quite frankly, the information that we started with, very thorough, very detailed from the Tax Reform and from Philadelphia Forward, left us with wanting. We just felt there was more information that we needed to know.

My engagement came as they were being formed and I was out looking for information because they were asking some of the same questions. And then as this organization formed, I stepped back in order to get the process moving within our organization.

What we would really like to see is in April -- and it's a date that we will announce. We would love to see as many of the Council will come out because what we're going to do is put all the people on the panel so that we can hear them discuss this. It's not so much a debate among the issues. We have principles that are based on what we refer to as a local living economy. The idea that a business in this City should support people, the planet and profits. And a business without profits is not a business. So this is not pie in the sky. In fact, I think if we could all be as successful as Judy, we would all be very happy. It is a philosophy on which she runs her business.

What we would hope is that you would

come out and listen to this bounce around. Let's listen to this information so that we have all the information that we need both as business people and as elected officials so that we can make the right decision. We need to make certain that as we move forward we're not shooting ourselves in the foot; and that, I'm sure, is something we all agree with.

COUNCILMAN RAMOS: Thank you for your testimony.

Thank you, Madam President.

COUNCIL PRESIDENT VERNA: Thank you. Anyone one else on the panel to testify?

MR. SHAPIRO: Yes, ma'am. Two more and then I will make a brief statement.

MS. MCCONNELL: Good evening.

COUNCIL PRESIDENT VERNA: Good evening.

MS. MCCONNELL: My name is Beth McConnell, I'm the Director of the Pennsylvania Public Research Group, Penn PIRG, a statewide consumer and taxpayer advocacy organization. I should also mention to you before I start my comments, Penn PIRG also partially owns and operates a small business here in Philadelphia called PIRG Fuel Buyers. It's a home heating oil cooperative that does pay business privilege tax in the City. We're happy to do so. And I can guarantee you that eliminating won't make any significant difference in the ability of us to do our job and run our business in Philadelphia, although we certainly are concerned about the impact.

Penn PIRG opposes Council Resolution 040767 as drafted which, as we know, eliminates the BPT between now and 2017 because we are concerned about eliminating important revenue streams from the budget at a time of fiscal uncertainty, not only at the local level, but also at the state level and national level. The proposal would fail to replace lost revenue in the current year, of course, as we know, leading to further cuts in City services and thus is likely to make ineffective the benefits of any tax cuts.

Penn PIRG also questions whether investments in quality of life improvements are a more an effective way to attract and retain businesses, residents, and spur economic growth. We urge Council to look more closely at this question in the coming weeks.

I'd like to make a few brief points, and of course, I have submitted written testimony and some supporting materials to Council.

First, as we've heard an awful lot today that -- or certainly from this panel that tax cuts, we believe, are not likely to work to retain and attract businesses if quality of life decreases at the same time. Indeed, the studies that we referred to earlier that purport to show the benefits of tax cuts assume that City services will remain at current levels which, of course, ignores a fiscal reality. When less money raised through taxes, the City will be forced to cut services while waiting for the economy to recover. The Tax Reform Commission actually recognized this tension, and Commission's recommendation offered several policies to replace lost revenue.

The bills pending before City

Council, as we see them, particularly 040767, does not include any of those revenue-raising ideas, particularly increasing the rights-of-way fees used by cable and telecommunications companies which could be one way to offset any loss in revenue from cutting taxes. Without a plan to make sure that our City can keep services at current levels or better, proposals to eliminate the BPT may not work to make our economy grow.

I'd also just like to touch for a second on the impact of federal cuts and state cuts on the City. We, of course, know that the Bush Administration's tax cuts are leading to significant revenue shortfalls and cuts in programs that will have an impact on Philadelphia. When the federal government cuts aid to the state, the state cut services. Indeed, Governor Rendell's budget for 2005-2006 includes painful cuts in medical assistance programs. That will lead to more Philadelphians looking for help from the City and creating economic hardship for too many of our City's most vulnerable. To eliminate important funding sources and cut City services in the face of these federal and state budget cuts could be a very dangerous plan.

As we've also heard earlier, most economists agree that taxes are a factor, but a small factor of a business decision to pick one city or township over another and that the quality of life is also a very significant factor.

I'd like to point to Washington, D.C.'s own Tax Reform Commission in 1999. They reviewed many economic studies to determine how much impact taxes truly have on business location and job growth. They found that the economic effect of taxes tends to be both small and less important than other factors. Labor force availability and quality appear to be more important for explaining differences across locations and economic activity. And they argue that studies do make it clear that a policy of cutting taxes to induce economic growth is not likely to be efficient or cost effective.

Similar research by economists at the Federal Reserve Bank of Boston, Washington College and others have shown that state and local taxes account for a small percentage of firm costs, as little as less than 1 percent. They argue that location decisions are based more on access to markets, skilled workers and even where the CEO of the company wants to live. In fact, even City Controller Jonathan Saidel acknowledged this in a 2001 report stating, and I quote, the answer to how much should the City tax does not have to be less than any other locality or even less than most cities, so long as a city is able to offer benefits, high-quality labor and municipal services in a thriving marketplace and good neighborhoods to attract and retain employers and residents.

While we certainly need to invest in our City to attract and retain residents and businesses, it's important to keep in mind that Philadelphia is not dying. And by some factors, it's actually doing quite well compared to other cities. Specifically, Philadelphia has the second highest homeownership rates of any other City in the country which could be a result of having affordable homes, affordable properties. Also, a look at unemployment rates of major cities over the last three years also shows some positive signs. Just looking at the top 10 largest CITIES for 2002, 2003, and 2004 showed that Philadelphia had a lower unemployment rate than New York City, Chicago, Houston, Dallas and Detroit, and our unemployment rates during this period of time were also lower than other well-known cities, distension cities like Atlanta and Portland and also Baltimore and Cleveland.

And as I wrap, I just want to make one point. I'm sorry Councilman Kenney is not here to specifically talk about the point that we don't have a resident raising problem but a spending problem. I was privileged enough to hear five years ago when City Council was considering what amounted to, I think, 1 billion dollars over 30 years to build two new sports stadiums in Philadelphia. And at that time, we raised some serious concerns about the impact that investment would have on our economy, whether or not we could afford to do it and would be faced with a situation in a few years where we would have to be cutting City services or other parts of the budget to pay for these new stadiums, whether or not that investment was going to lead to economic gain for Philadelphians.

I also want to point to a letter that we circulated about a month or two ago raising serious concerns about a proposal that ultimately was passed that gives about $43 million in subsidies to Comcast. And I understand Comcast is seeking additional subsidies. And I would raise some serious concerns about whether or not we do have a spending problem in that area. Maybe we need to take a closer look at those sorts of policies and those sorts of programs and question whether those should be eliminated to ensure that we have the revenue public services and public good.

Thank you very much.

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COUNCIL PRESIDENT VERNA: You're welcome.

Our next witness. Good evening. Please identify yourself for the record and proceed with your testimony.

MR. BUTLER: Thank you. Good evening, Madam President. I am Andre Butler. I am a member of One Philadelphia and I'm also a member of the Philadelphia Unemployment Project. And we, as our name says, help people not just in the City but in the region to find jobs, whether they are unemployed or whether they want to get a job in better field than what they are. We also offer mortgage assistance and people that need help that are behind in their mortgage or behind in their rent. So we see basically the grass roots, quote/unquote, bottom level of the citizens of this region and especially this City.

Number one, let me say for myself I'm privileged to sit in Council Chambers for the first time and as my first time having the privilege to testify. I just hope I had been here under different circumstances.

But it's a bit of a sad day for me because I've lived in Philadelphia every day of my life and I was raised to know that this City was supposed to be the City of brotherly love. And I want to know you reduce the business privilege tax, where is the brotherly love because the people are supposed to get the services of this City are going to be affected and they won't receive any brotherly love.

We heard today a lot of talk from what I'd like to call the big boys, the business people, the lobbyists. They're the big boys of this City. They're not the grass roots, the people that make the City work. That wasn't them talking today. And we have to speak for them, and myself included, because at the Philadelphia Unemployment Project, we have a saying that we like to speak for those who cannot speak for themselves. That's what we're hearing today because some of them can't come or don't want to come to face City Council. But that's the what we're doing today because the grace roots lower level people have no voice to really speak feel they have no say in City government. So I'm going to say a few words for them right now.

We heard from Mayor Street that he wants to eliminate the business privilege tax and raise parking tax. That's still going to leave the police serving as I believe lowest levels in City history. And how do you expect to increase revenues and increase jobs and increase businesses in the city if you're going to reduce the police force? How safe are they going to feel getting employees to come in and work for them if they have no police to protect them. I ask again, where is the brotherly love?

Councilman Kenney raised a point. I wish he was here to listen to this. He raised a point that the tax reduction is not the cause, why we're in this position today. I would also venture to say that the tax reduction is not tax reform. Tax reform means that you have a discussion of how you can better use the tax base that you do have and that you use that tax base. You don't eliminate taxes. That's not tax reform.

If you raise the parking tax, all that's going to do is make less businesses want to come in the City and make our job at PUP harder because with all of the tax breaks that people received, we have received no reduction in people coming to us to get help, to get a job. We haven't received any relinquishing of that at all, so we see no benefit of, for example, the stadiums at Beth McConnell just spoke about. It didn't make our traffic flow any less. We had the same people coming in wanting jobs, wanting help. And we can't tell them now to go use the computer at the library because they're being closed.

So much of what we see as the low level or the small people, so to speak, in this City is just going to be compounded, if not totally mind-boggling.

Councilman Clarke asked a question earlier today, he asked one of the panel members or somebody up here before, if we vote for or reduce these business privilege taxes, what do we do to make up the gap? Well, the first thing you do is you don't vote for the business privilege tax. That's the first thing you don't do, because that's an obvious thing that is making the revenues less.

The Chamber of Commerce was here today, and the governor was asked, how do we make up the gap and the difference in revenues? That's the wrong person and the wrong entity to ask. That's the big people. They're not the ones that are here at the low level. So that's the wrong person to ask, those people.

Somebody else mentioned about reverse mortgages. All that does is put senior citizens basically in debt to their house. And when somebody else mentioned about the real estate values have been increasing, as we all know, some of that is not so much that the real state values have increased, it's just basically making the house increase in value to bring more taxes in. It's not so much that the property taxes have gone up, they've gone up because they've been put up to increase the revenues. So reverse mortgages wouldn't help for the senior citizen people.

And also, since we help people that are behind in their mortgages and behind in their taxes, you have two tax liens now in this City. There was one a month, but now there's two tax liens a month. And it's at least a hundred people per tax sale whose houses are being sold because they can't afford to pay their property taxes. That's not even counting the 1,000 people a month that are being foreclosed on in the regular sheriff sales. And many people escrow their property taxes into their mortgage payments. So the people that would be adversely affected by having their property taxes increased would be totally, completely astronomical to this City and to the regular lay people of this City.

To what Councilman Cohen said, Bush tax give-way and what this City wants to do is the exact same thing. It's no real difference.

And yesterday there was a report that somebody, I'm sure, heard it more than I did that the City basically region only increased about 5,000 jobs in the past decade. I think it was a decade. Which makes Philadelphia looks like it's terrible. If you can increase jobs more than 5,000 for the past 10 years, that was not a good thing to actually hear.

And as Councilman Cohen said, hopefully we can reconvene this at a time when more people can be here from Council because this is a vital issue to the entire City and it's important that, I believe, everybody in Council hears. Not just reads our testimony, but hears it from our mouths each as we speak it that it's important not just one side be heard but all sides be heard and be sure that whatever is done in Council is done and everybody listens to it and make a true and rational correct decision. Thank you.

COUNCILWOMAN BLACKWELL: Thank you very much.

Mr. Shapiro, you wanted to other

statements?

MR. SHAPIRO: Stanley Shapiro. A few of you probably recognize me. It's nice to be here. It's kind of unfortunate. I was hoping my first time back as a, quote, private citizens would be one of which I could support Council initiatives. This doesn't happen to be that circumstance.

I want to further say, this panel has been a tremendous panel. I'm so proud I had anything to do with putting it together. I know how great it is because they stole every single one of my great lines. And so I have virtually nothing left to say except that I do hope, and Mr. McPherson and I have talked about it a little bit, that we can find a way when the Administration comes back perhaps to have this kind of testimony presented because I think really in the last two years it hasn't been part of the record, it hasn't really been part of the debate, and it's really incredibly important. If we're getting ready to give up $300 million of City revenue that a few qualifications be offered to that.

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My main qualification that I want to offer is that the notion that it's okay to give up the $300 million as long as we do it slowly kind of brings to mind what the lobster might be thinking as it's dropped into the pot of water and the flame is slowly turned up and its quality of life is slowly turned down. And it's just feeling to me like the lobster really doesn't care how slowly its quality of life is being turned down. Pretty soon, it's not caring about anything. And I'm sort of hoping that doesn't happen to us. So that's it from here.

COUNCILWOMAN BLACKWELL: I will note that on the news last night they talked about that very subject, and they said that lobsters feel no pain. So I don't know how you want to integrate that into this conversation. That's what the newscaster said, at any rate.

MR. SHAPIRO: Thank you.

COUNCILWOMAN BLACKWELL: Thank's Mr Shapiro.

Are there any questions for members of this panel?

(No response.)

COUNCILWOMAN BLACKWELL: We thank you all for your testimony and your commitment.

MR. MCPHERSON: The next witness is Enrico Scuilli.

COUNCIL PRESIDENT VERNA: Thank you all very much.

Thank you for patiently waiting and we appreciate it. Please identify yourself for the record.

MR. SCUILLI: My name is Enrico Scuilli, and I've been in business for 38 years, since I was 15 years. I walked down City Hall Municipal Services Building to get my first business license from the City of Philadelphia. It's been many years and struggle with the taxes as more time passes. And I see it that not only me but I also represent people that couldn't make it here today because they can't leave their business. I was fortunate that I have a brother that we both run the business I was able to come up here and testify.

This business privilege tax at the end of each year, it's a pain. It hurts. And unless your's in my kind of shoes and the type of business people that I'm in, we know what the pain is. When we factor our prices into our product that we sell, we can't afford to factor the taxes at the end of year. We hope that make so that we can pay the City a year or two at a later date. So we do the best that we can and then try to pay the bills. It's like you rob Peter to pay Paul. It is a struggle. So I'm speaking on my behalf and on behalf of the people that couldn't make it here day that if the City would do that, the City of Philadelphia will flourish, will grow. It's just like someone having a sale. People will be moving back to Philadelphia at a greater number because of the fact when they don't have to worry when it comes to the 15th of April to pay the BP tax. It would be nice when you know it's not there because the City becomes -- the City is a partner the whole year around. When the comes to the end of the year, this City is another partner waiting for that big lump sum. There is no lump sum. You don't know how hard it is to dig it up. So I've been here for many years.

Now, it's going to take up to the year 2017. Who knows. That's another 12 years from me. I'm 53 years old. I'll be 65. Hopefully, I'll still be in business and struggling. But that's all we've been doing is struggling. And a lot of our people, little guys, we struggle every do, so we appreciate it if it can be taken away. And I will close that as my last remark.

COUNCIL PRESIDENT VERNA: Thank you. And I know what a hard-working gentleman you are and how much you put into your business. And I know you've sitting here all day and I want to thank you for coming in to testify. Thank you so much.

MR. SCUILLI: Thank you and good evening, everyone

MR. MCPHERSON: The next witness is David Rech.

COUNCIL PRESIDENT VERNA: Good evening.

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MR. RECH: Hi, I'm David Rech, R-E-C-H. In addition to being in the business which is why I'm here, I also run Friends of Dickinson Square and we operate in your district.

First of all, good afternoon -- or at this point, good evening. I'm David Rech, president of Scribe a publishing services company located here in South Philly, and I'm here to urge Council to repeal the business privilege tax.

The point of my testimony today is not to remind of what you already know, that small and medium-sized businesses are the backbone of Philadelphia's economy or that the vacancy rate of commercial space in Philadelphia is incredibly high, that small businesses pay more than our fair share of the tax burden, or that the loss of businesses and population is astounding. D you know that, and frankly, I can't tell you how to answer that. And despite the apparent egotism that would seem from the following statements, I have a much more important story to tell you.

I represent to Philadelphia both its greatest hope and its bleakest look into the future. I am, as you will hear, a statistically ideal Philadelphia resident, the person who represents the answers to Philadelphia woes. And I'm also Philadelphia's most depressing story, a bleak and depressing look into your future or our future.

I moved to Philadelphia from Miami to attend graduate school here at the University of Pennsylvania. My intention was to stay here for four years and never to live through another winter again. Fourteen years later, I have live on the 100 block of Bainbridge Street and I plan to remain here for the rest of my life. My joke is that I am going out horizontally. I'm active in the community. And while Frank DiCicco and Jim Kenney are not here, they will tell the rest of Councilmembers both what a pain I can be and also that everything I'm about to tell you is true.

I love Philly, and if the weather were better, I'd be a little happier; but I would not ever planning to think of another place where I'd rather live. And I'm not bragging, I'm just saying this as a statement of fact. In terms of statistics of the City of Philadelphia, I'm a model citizen that Philadelphia government members should value.

In 1999, after attending graduate school here and working consultant, I started Scribe, a company that offers editorial production services for what we call multi-purpose publishing. We work for over 40 publishing companies, and our books can be found all over the world. Since our inception, we have had an annual growth of about 40 percent a year with no foreseeable end to that increase. I employ 24 people. The lowest wage that I pay to any of the members of our staff is $9 a hour. To undergraduate interns who are paid interns at my company, the average employee earns over $35,000 in my company. Everyone who is a full-time employee has full health benefits. They have an option for a simple IRA participation, and we have a very good quality of life for my employees.

COUNCIL PRESIDENT VERNA: I'm sorry, how many employees did you say you have?

MR. RECH: Twenty-four.

I hire a diverse and significant cross-section of the population here in Philadelphia. Included in my employ are part-time college students, welfare to work mothers, people with disabilities, and recent college grads who stay in Philadelphia because they are employed by my company. Over half of my employee live in the City of Philadelphia. And I don't need to tell Council the economic benefit of that. Four people in my employ moved specifically to Philadelphia in order to be employed by my company.

Our company is an outsourcing company, that is, larger companies come to us for services. And as you know, this is the current buzz. Outsourcing is the future in the service industries. Our business is a service company to which publishers outsource. And through the use of technology and efficient process management, we are able to

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compete with off-shore businesses that are located in India, China, and the Philippines. Scribe represents for Philly a significant model for long-term business development because our of technological advances and because of the quality of life and the rising incomes we have for our employees.

In fact, at a professional conference which will be held here in June, the American Association of University Presses, an announcement will be made declaring Scribe's business model to be stronger than any off-shore model that is existence today. In addition to helping Scribe to expand, the fact of that should confirm pretty much every statement I've said here so far.

So I'd like to say I represent the hope of Philadelphia. But I also represent the bleak future that Philadelphia might have.

I just want to tell you a couple things about the City of Philadelphia. I don't know if you all know this, but in the not-so-distance past Philadelphia was the center for English language publishing, superior to New York and to London. And when I began my business, there were nine competitors in the region to my company, Scribe. Of course, we were a one-person operation that has grown to 24. There are no other competitors left in the City of Philadelphia. The last one just moved its operations -- and you can read about this in the Philadelphia Business Journal -- to the Philippines.

Though publishing is thriving as an industry, our business is experiencing a downward pricing pressure. While revenues have increased, profits in the form of my salary have remained flat for that last two years running. And finally -- and this is a statement that I wish every Councilmember could hear, and they will because I have written letters all of you. Scribe has made a decision that the only way to remain economically viable is to move the operations of our company outside of Philadelphia. Now, if I were moving to India or the Philippines then you could dismiss me and wonder what my testimony has to do with the business privilege tax.

Like I mentioned, the off-shore model, however, is not a viable one for us. Scribe requires a well-educated workforce. We benefit from the presence of large numbers of high education institutions. We prefer an urban area with the cultural and arts that accompany it. And we require close proximity to New York City, Boston, Washington, D.C., and Nashville, Tennessee. I find cultural diversity also to be important because it aids in the success of my business. In other words, Philadelphia is a potentially ideal location for my business.

But, like every other business person, the most important thing to me is my cost of operations and, frankly, my salary. And I'm not talking about -- and in order to do that in order to increase revenues, in order to increase profits, in order for me to continue to have a viable business, I must move my business out of the City of

Philadelphia unless some kind of change is made soon. And the business privilege tax elimination between now and the year 2014 represents that. I'm not talking about a huge reduction in cost that my business needs to remain here. Our business operates on approximately a 10 percent margin. A change in only a few percent of our cost will make so that moving our operations would not be necessary. A change of a few percent of the business operating expenses would mean that Scribe would not institute a hiring freeze that we will have operational as of March 1, 2005 despite our need for additional people. A change in a few percent of our operating expenses would mean that we wouldn't have to shrink our Philadelphia operation from 24 current employees to 8 over the next two-year period. That is our plan. A change in a few percent of our operating expenses also means instead of moving out of Philadelphia, we could continue to grow here. Instead of Huntsville, Alabama; Columbia, south Carolina; Jackson, Mississippi, Fort Lauderdale, Florida; or Charlotte, North Carolina -- and I hope you heard that I am not mentioning any suburban or off-shore locale. Those are our finalists. A change in a few percent here would mean that Scribe would continue to have a long and vibrant, I hope, future in the City of Philadelphia.

While I understand the need for the City to raise revenues and would be lying to you if I told that the BPT is the sole reason why we must move our company, I can tell you that it is only a few percent that we are moving. My growing, thriving, technologically-based, environmentally-friendly, culturally-enriching business out of this City, Philadelphia, that I love. And while I would urge a complete reworking of the tax codes, the BPT represents that small percentage. Thanks.

COUNCIL PRESIDENT VERNA: I recall your coming into Council many times, I guess, when you first graduated and started your business. And when you started to talk, I thought how wonderful. This is truly a success story. I can tell you that Council cannot do anything about the weather, but perhaps if you stay with us, hopefully we will be able to do something about the tax issue. We definitely need people like you to stay in the City. For you to be as successful as you have been, I applaud you. I think it's wonderful. And as I said, I think you've got to give us a chance to try to help you.

MR. RECH: And we're not intending -- I mean, look, I'm going to stay here the rest of my life; this is a great City. The problem is it's a very simple equation. You just have to figure out what your cost of operations are and you have to be able to be competitive.

COUNCIL PRESIDENT VERNA: Well, as the young said before you, as hard as he works, by the time he adds up what the taxes are, he has very little profit left.

MR. RECH: And that's the same for almost every small business, as you know.

I thank you. I appreciate you're listening

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COUNCIL PRESIDENT VERNA: I believe Councilman Rizzo would like to be recognized.

COUNCILMAN RIZZO: I echo the words that President Verna said. If we lose you, we're going to lose another, another, another. I think we're really trying here to do something to make it better. If you could hang in with us -- I'd be the first to tell you that if it doesn't get better than go. But give us an opportunity to work with you a little longer, lease.

MR. RECH: Okay.

COUNCILMAN RIZZO: Thank you.

COUNCIL PRESIDENT VERNA: I hope you don't have to come back before us again and tell us that you're going to be leaving.

MR. RECH: Well, I hope so too. Thank you very much.

COUNCIL PRESIDENT VERNA: Thank you.

MR. MCPHERSON: Joseph Hanley.

COUNCIL PRESIDENT VERNA: I know that this has to be very important to all of you to be so patient to sit here to wait to be heard. And I want to know we really appreciate it. Thank you all so very much.

Mr. Hanley.

MR. HANLEY: Thank you, Madam President Verna. And we do appreciate your patience with us.

I do have written testimony, and I'd like your permission to give you the cliff notes version of my written testimony.

COUNCIL PRESIDENT VERNA: That would be wonderful. Thank you very much. And we'll make certain that the stenographer gets a copy and it will be transcribed in full.

MR. HANLEY: I am here today as the president of Builder Owners and Managers Association of Philadelphia, commonly known as BOMA. With my is Cathy Garra (ph). She's our executive director.

COUNCIL PRESIDENT VERNA: Welcome.

MR. HANLEY: BOMA member buildings provide 51 million square feet of office space and over half a million in office workers throughout the City of Philadelphia. The assessed real estate valuation represented by BOMA member buildings exceeds $1.6 billion, providing real estate tax revenue for the City of approximately $133 million. In addition, BOMA member buildings and occupants pay revenue to the City for wage tax, business privilege tax, use and occupancy tax, as well as Center City District assessment, totaling $1.6 billion annually. Total revenues received by the City from BOMA member buildings and their tenants exceeds 1.29 billion annually. Our industry as a whole represents 70 percent of the tax base of Philadelphia.

As real estate professionals in the Philadelphia area, BOMA members work with two types of companies and organizations. First, tenants already in the City who struggle with the decision of whether to stay or relocate to the suburbs or other locales; and secondly, prospective tenants that are in consideration of possibly moving to the City or region. The No. 1 issue that we hear about is that businesses located within the City bear a tax burden that businesses outside the City do not. And it's a current inequitable tax structure is a major barrier to future growth and prosperity within the City of Philadelphia.

In our opinion, this bill is the exact type of legislation needed for achieving growth and prosperity for the City and the entire region. This tax reform will lead to meaningful job growth which, in turn, will result in new companies moving into the City. With more City residents working, there will be higher wage tax revenues, greater occupancy in central business district office buildings, increased real estate values, both commercial and residential the higher real estate revenue, higher use and occupancy revenue and greater contributions to the Center City District and a more vibrant retail sector.

Some may ask if it's fiscally prudent to enter into such reforms at a time when the City is facing deficits and contemplating cutbacks in City services. We respectfully suggest that now is the time. The cost of these reforms will only get more expensive as time goes by, not to mention the opportunities will be lost if you do not act boldly and progressively now. We suggest that you pass this vital bill. Thank you.

COUNCIL PRESIDENT VERNA: Mr. Hanley, what is the occupancy rate at the present time.

MR. HANLEY: Our unoccupancy space is approximate 16 percent, so 84 percent, I some way.

COUNCIL PRESIDENT VERNA: How does that compare to, say, five years ago?

MR. HANLEY: I'll have to refer to Cathy on that one.

Cathy, do we have that information?

Can we get back to you on that?

COUNCIL PRESIDENT VERNA: Yes.

And do you anticipate that it will be getting better or worse?

MR. HANLEY: Well, right now we thing we're going to be on the down slide. As you know, the KOIZ controversy was just pushed aside, but it was the monies dedicated from the State and the City for the Comcast tower. That will essentially empty out the east tower of Center Square Building. So when Comcast moves over to that building, there will be a large chunk of real estate that's now available for occupancy. And there's nobody knocking on the door to come and occupy that space. So for the immediate future, we do see that the unoccupancy rate is going to increase.

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

(No response.)

COUNCIL PRESIDENT VERNA: Seeing none, again, I want to thank you very much for your patience. I know how important this is to you if you stayed here all day to testify.

MR. HANLEY: Thank you. We'll get back to you on that point.

COUNCIL PRESIDENT VERNA: I'd appreciate that. That would be great. Thank you.

MR. MCPHERSON: The next witness is Fred Murphy.

COUNCIL PRESIDENT VERNA: Mr.

Murphy, you too have been extremely patient.

MR. MURPHY: My name is Frederick Murphy. I'm here representing the Center City Residents Association. And a little background, we did a tax study at CCRA a few years ago, and I also was an advisor to the Tax Reform Commission, so I've been following this issue for a while.

Now, the basic principle of taxation is if it can't move, tax it; but if it can move, don't tax it. We're in situation now where companies can move anywhere and we've seen it happening in manufacturing. We've lost so many manufacturing jobs because of the interstate highway system. Now what we're seeing is with the Internet, we're losing a lot of those service jobs. I see it in my job. I don't use the regular mail anymore. I communicate with people around the world regularly, and we do work together and we're not even in the same country. And what's happening is that the pipeline is growing and more and more business is moving away just because of that.

And so if you look at Philadelphia and you compare it to other places, in Ireland they cut the tax rate, the national corporate tax rate to 12 percent. Ireland is the fastest growing country in western Europe. If you look at Poland. Poland's tax rate is now 19 percent. If you add up the City and State corporate taxes, you're talking something that's higher than what Ireland charges. And then we have the federal taxes on top of that.

Now, Poland -- there's an article in the Wall Street Journal. Poland hosts a half dozen facilities for a company called Delphi Corporation. Delphi Corporation is the parts division that was spun off of general motors. And now what's happened is they've moved to Poland out of Germany because of tax wage and, of course, wage rates. But mainly tax rates.

Now, Ace, one of our big companies here is headquartered in Bermuda. And my academic professional society -- I wish the previous speaker had stayed around. We're a small society. We have a $6 million annual budget. And what we've done is we've moved the composition for our publications to India and we do everything over the internet. So what made the central business district work with people have to be together to be able to talk together is now diffusing. And so it's the value proposition. What does the City provide as value? That previous panel was talking about the value of services and all that. And it's the value of the City to a business for communication and services. That's dissipating with technology and, yes, services count, but now it's becoming taxes because what's happened is that companies have lost pricing power so everything is very thin, margins.

General Motors, which used to have a 50 percent share of the auto business, is now down to 29 percent. And they're being squeezed. Their profits are negligible now. And their bond rating is being cut. So that's the business environment that we'll dealing with. So we have to be very conscious of the impact of taxes on those business decisions.

Now, another aspect is that the

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revenues garnered from the business privilege tax are grossly overstated. The number that has been quoted, the $300 million, is the tax take, but it doesn't net out the cost of that tax take. The $40 million for Comcast, the enterprise zone for the Cera Center, all of that is expenditures that are compensating for the business privilege tax. So the true business privilege tax is much lower and it would be good to have your people actually calculate what that true number is, what you really gain in net revenue from it after you've had to do all these give-aways. You'll find out that cutting the business privilege tax and cutting out of give-aways would mean that do you not have that big a net loss in revenue.

Now, the other aspect is that the business privilege tax -- as a college professor, I have a small consulting income, averages about probably $5,000 a year, so I have to deal with the business privilege tax and do it myself because why pay an accountant more than I make in income. And what I find is that the forms are indecipherable. That's one issue I kept raising with the Tax Reform Commission, but they truly are impossible to deal with when you have to do it on your own. And in the end, what I wind up doing is calling people and asking the people in the City for help, "What do I do here?"

And the handling of the business privilege tax is unfair. I made a mistake in the way I filed my taxes for this past year. I overpaid my net profits tax and underpaid my business privilege tax. So I wind up having to pay the penalty for being late on paying what I was short on the business privilege tax, but I got no equivalent credit for my net profit tax. I wrote one check, sent all the forms in the same envelope, but the way the City treats the taxpayer is to say, "You lose because I put it in the wrong box."

COUNCIL PRESIDENT VERNA: Have you been in touch with the Revenue Commissioner?

MR. MURPHY: No.

COUNCIL PRESIDENT VERNA: Why not?

MR. MURPHY: Because I lead a busy

life. I've got sick parents that I'm trying to help, and I don't have the time to deal with it.

COUNCILMAN RIZZO: Was this last year?

MR. MURPHY: It was last year's business privilege tax and it got resolved --

COUNCILMAN RIZZO: Did you get your money back?

MR. MURPHY: I don't know. I haven't gotten any information on that yet. But this is really remarkable.

COUNCILMAN RIZZO: If you want some help, call me or the president.

MR. MURPHY: Now, the question everyone raised is do you have to cut services. Well, my belief is very simple. If we have the most efficient city government in the world, we would have to cut services to cut taxes. I'm a professor of operations management in the business school at Temple University. When I use examples of how not to do things, I use city operations. As a example, in this last snowstorm, for every half inch of snow that fell, a plow came down my street. Why aren't the plows routed properly so they get the snow removed and don't waste taxpayer money?

COUNCIL PRESIDENT VERNA: If any of my constituents are listening, they'd love to know where you live to get that kind of service.

MR. MURPHY: Pine Street.

So in summary, CCRA view is we strongly endorse the Tax Commission's position on the BPT, their recommendations, and we strongly endorse the reductions because what we see is we need to grow the City.

And the final comment, in the panel they were talking about how the economists came up with those analyses that did not show City taxes affecting jobs. As someone who's been involved in public policy analysis for 30 years -- my expertise is in energy and my consulting is with the Department of Energy and Energy forecast. My experience is that you have to read those kinds of studies very carefully and look at the details. There are technical issues with the data cross-sectional, was it time-seriesed? The E Consult model was a time series model using Philadelphia own data. It's not a model that compares Detroit to Philadelphia. And that's important. Detroit is shrinking because the US manufacturers in the auto industry are shrinking. Productivity improvements to try to compete with the Japanese and the Koreans and the Chinese have meant major reductions in labor, and that's a one-industry town. So that's why Detroit is shrinking.

We're in a metropolitan area with many diverse business. We are the index economy, if you wish. David Thornberg has used that term. That we're shrinking means that we're not running things right here in terms of taxes. And if you have a regression with a hundred data points, and the wage tax -- take the equivalent of the business privilege tax or the wage tax. If it's 1 percent in the suburbs and 1.2 in the city, you won't see a difference. But you're talking at least in the wage tax of it being 1 percent in the suburbs and over 4 percent in the city. It's when the numbers get big that you get the cascading effect. So the kind of cross-sectional regression analysis in those other studies don't necessarily provide valid information. I haven't read those studies, but be very careful in using them.

COUNCIL PRESIDENT VERNA: I found your testimony extremely interesting. And you did hear testimony from one of the panels about their fear that if, in fact, we were to reduce taxes, their concern is that we would also lose City jobs and services.

MR. MURPHY: Well, if you cut services that are important to the businesses that locate in the City, they are right. But in fact, the bulk of the services that are important to the businesses in Center City, for example, come from the Center City District, not from the City. And we're not talking about cutting that, so we're not going to be cutting those serves for clean streets and things like that for these businesses. So you don't have to fear that.

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COUNCIL PRESIDENT VERNA: I don't know that they're referring simply to businesses. I think they're more concerned about the residents.

MR. MURPHY: Now, you have to talk about which residents. The taxpaying residents like the person who talked before me, they don't demand a lot of city services. Basically, what we get is our trash collected and the general police protection. We don't make any other demands on the City. So you have to ask which services are important. And when people move to the suburbs for services, it's the services for those middle class people, not the services for the poor.

At the same time, the E Consult model shows that revenues for the City are restored and it comes from real estate taxes mainly from people like me who have houses that have gone up dramatically in price in Center City. And you can solve the problem for the elderly and the low income people, the low-income elderly especially, by allowing them to defer the taxes until their home becomes part of their estate and collect it then. That's not a big number. The big number in terms of real estate is Center City, Chestnut Hill, the growing area of West Philly.

COUNCIL PRESIDENT VERNA: Okay. Are there any questions of Mr. Murphy by members of the Committee?

(No response.)

COUNCIL PRESIDENT VERNA: Thank you again for your patience.

Mr. Murphy, at some time, can I feel free call you. I would like to get some of your input.

MR. MURPHY: Okay.

COUNCIL PRESIDENT VERNA: Thank you.

Do we have anyone else to testify?

(No response.)

COUNCIL PRESIDENT VERNA: This Committee will stand in recess until Wednesday, February 23rd at 10:00 a.m. Thank you very much.

(Hearing recessed at 6:35 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 Wednesday, February 16, 2005, were reported fully and accurately by me, and that this is a correct transcript of the same.

RE: COMMITTEE OF THE WHOLE

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Lisa C. Bradley, RPR