

COUNCIL OF THE CITY OF PHILADELPHIA
COMMITTEE ON FINANCE

Room 400, City Hall
Philadelphia, Pennsylvania
Monday, October 24, 2011
1:40 p.m.

PRESENT:

- COUNCILWOMAN MARIAN B. TASCO, CHAIR
- COUNCILWOMAN JANNIE BLACKWELL
- COUNCILMAN DARRELL CLARKE
- COUNCILMAN W. WILSON GOODE, JR.
- COUNCILMAN BILL GREEN
- COUNCILMAN WILLIAM K. GREENLEE
- COUNCILMAN CURTIS JONES, JR.
- COUNCILMAN JAMES KENNEY
- COUNCILWOMAN MARIA D. QUINONES-SANCHEZ
- COUNCILWOMAN BLONDELL REYNOLDS BROWN

BILL 110548 - An ordinance amending The Philadelphia Code, principally Title 19, entitled "Finance, Taxes and Collections," and such other provisions as may be appropriate, to reduce the tax burden on existing and new businesses...

BILL 110554 - An ordinance amending Chapter 19-2600 of The Philadelphia Code, entitled "Business Privilege Taxes," by providing certain exclusions, modifying certain definitions, and revising certain tax rates...

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COUNCILWOMAN TASCO: Good
afternoon. I apologize for being late.
We'd like to call the Committee on
Finance to order and recognize that we
have a quorum in the presence of
Councilmembers Brown, Greenlee, Green,
Blackwell, Goode, Kenney and myself.

We ask the Clerk to read Bill
No. 110554.

THE CLERK: Bill 110548, an
ordinance amending The Philadelphia Code,
principally Title 19, entitled "Finance,
Taxes and Collections," and such other
provisions as may be appropriate, to
reduce the tax burden on existing and new
businesses; and to eliminate, waive, or
reduce certain fees and permit charges,
all for the purpose of generating growth
in existing businesses, the birth of new
businesses, and the creation of jobs; all
under certain terms and conditions.

Bill No. 110554, an ordinance
amending Chapter 19-2600 of The
Philadelphia Code, entitled "Business

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2 Privilege Taxes," by providing certain
3 exclusions, modifying certain
4 definitions, and revising certain tax
5 rates, all under certain terms and
6 conditions.

7 COUNCILWOMAN TASCO: Thank you
8 very much.

9 The Chair recognizes
10 Councilwoman Sanchez.

11 COUNCILWOMAN SANCHEZ: You can
12 let Bill go first.

13 COUNCILWOMAN TASCO: The Chair
14 recognizes Councilman Green.

15 COUNCILMAN GREEN: Thank you,
16 Madam Chair. We are handing out now
17 amendments that have been worked on with
18 the Administration with respect to this
19 bill, and the Administration will testify
20 about them with Mr. Dubow's testimony.
21 It keeps in place both the exemption and
22 single sales factor and just deals with
23 timing and other things that the
24 Administration would like to discuss.

25 So everybody can take a look at

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2 that amendment.

3 Councilwoman Sanchez.

4 COUNCILWOMAN SANCHEZ: Thank
5 you. I think before we get started with
6 this and just kind of set the tone, we
7 have from day one been very diligent and
8 committed to working with the
9 Administration on what we believe to be
10 an important piece of legislation at an
11 important time given the economy, and,
12 you know, I'm very thankful for the
13 Administration and their team and our
14 team's work on all of this, and
15 particularly our stakeholders who,
16 through this process, have really
17 educated us around how do we make
18 Philadelphia really open for business.

19 So I look forward to the
20 testimony and hope that the Finance
21 Committee will support us on this bill.

22 Thank you.

23 COUNCILWOMAN TASCO: Thank you
24 very much.

25 The Chair now recognizes the

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2 first panel.

3 COUNCILMAN KENNEY: Can I --

4 COUNCILWOMAN TASCO: Oh.

5 (Off-the-record discussion.)

6 COUNCILWOMAN TASCO: We
7 recognize the first panel, Mr. Edward
8 Kicak, Pete Windle and William Stockwell.

9 (Witnesses approached witness
10 table.)

11 COUNCILWOMAN TASCO: Good
12 afternoon.

13 (Good afternoon.)

14 COUNCILWOMAN TASCO: Would you
15 please state your name for the record and
16 begin your testimony.

17 MR. WINDLE: Peter Windle.

18 Good afternoon, Chairwoman
19 Tasco and members of Council. Thank you
20 for the opportunity to testify on the
21 need for pro growth tax reform. My name
22 is Pete Windle and I'm the President and
23 CEO of Windle Mechanical Solutions. Our
24 company is located in the Tacony section
25 of Northeast Philadelphia. I'm also a

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2 current Board member of the Urban
3 Industrial Initiative and Manufacturing
4 Alliance of Philadelphia. We're a small
5 American manufacturing firm that does
6 business and aims to succeed with our
7 local customers as well as those located
8 in several states around the country.

9 COUNCILWOMAN TASCO: Would you
10 get closer to the mike, please.

11 MR. WINDLE: Certainly.

12 Our company was formed in 2006
13 when I acquired the assets of XL Machine
14 Company, who had been in operation in
15 Northeast Philadelphia since 1969. Since
16 taking over in 2006, we've almost doubled
17 our sales volume. Our company is a
18 precision machine shop that focuses on
19 manufacturing highly engineered component
20 products and assemblies for the
21 biopharma, oil and gas, power and
22 aerospace markets. On any given day, we
23 manufacture parts that are vital to the
24 efficient operation of pipeline pumps,
25 which move oil throughout the country,

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2 equipment critical to vaccine production,
3 apparatus that is used in power
4 generation, and complex helicopter parts
5 and assemblies that are used in search
6 and rescue operations. We currently hold
7 a globally recognized ISO 9001:2008
8 Quality certification and are currently
9 investing in our AS 9100C Aerospace
10 Quality certification to further
11 demonstrate our commitment to that
12 aerospace market.

13 We currently employ nine
14 people, many of whom are Philadelphia
15 residents. I am happy to say that we
16 have added two jobs since the middle of
17 2010, one as recently as last week. The
18 average salary of our workers is over
19 \$47,000 per year, and all are offered
20 comprehensive health care and benefit
21 packages. We are proud to be able to
22 provide family-sustaining wages for our
23 co-workers.

24 I feel good about owning a
25 manufacturing business in one of

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2 Philadelphia's neighborhoods. I believe
3 even though we're small, our presence in
4 the neighborhood has a significant
5 impact. However, the increase in costs
6 of doing business, specifically business
7 privilege tax, is a significant challenge
8 for us and puts us at a disadvantage when
9 competing for work with others.

10 As we grow towards our targeted
11 business levels and we come to the end of
12 our building lease, we know we'll be
13 faced with decisions about relocating our
14 facility to a place that supports our new
15 business levels.

16 With that said, we will
17 evaluate the costs associated with
18 staying inside the City and weigh those
19 costs against relocating outside the
20 City, where the cost may be less due in
21 part to the business privilege tax.

22 Under this proposed business
23 privilege tax, based on this year's
24 estimated full business volume, our
25 savings would approach \$4,000.

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2 I support the proposed business
3 privilege tax reform for two main
4 reasons. First, it would mean tax
5 savings for my company. The savings
6 could translate into the company's
7 portion of an individual's health
8 insurance premium, a year's worth of
9 lease payments for the latest technology
10 of machine tool, upgraded order
11 processing and job-tracking software,
12 training for co-workers that may lead to
13 our next innovation and the company
14 growth, part of a new hire's salary. All
15 of these investments make us more
16 competitive and foster renovation in the
17 manufacturing scheme.

18 Second, I think the reform
19 would make my company, as well as other
20 manufacturers in Philadelphia, more
21 competitive with companies outside of the
22 City. Most of our sales, approximately
23 90 percent, are from outside the City.
24 Under the current business privilege tax
25 structure, we have to pay the 6.45

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2 percent net income tax on these sales,
3 which puts us at a disadvantage to our
4 competitors outside the City who do not
5 have to pay that high rate of tax.

6 But putting in place a single
7 sales factor apportionment, the proposed
8 bill would help level the playing field
9 for us when competing for work,
10 especially for work outside the City.

11 Under this concept, we would only pay the
12 net income tax on the sales inside the
13 City and, like our competitors, wouldn't
14 have to pay it on sales outside of the
15 City. As an entrepreneur and head of a
16 Philadelphia-based manufacturing
17 business, I only look for our government
18 leaders to provide a level playing field
19 from which to compete.

20 With that said, I urge you to
21 vote for the business privilege tax
22 reform.

23 Thank you.

24 COUNCILWOMAN TASC0: Thank you.

25 Next. Mr. Kicak.

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2 MR. KICAK: Kicak.

3 COUNCILWOMAN TASCO: Kicak.

4 MR. KICAK: Kicak, yeah.

5 Nobody ever got it right. Don't worry
6 about it.

7 Good afternoon. My name is
8 Edward Kicak and I am the Vice-President
9 of Finance and Chief Financial Officer of
10 Sandmeyer Steel Company located on Red
11 Lion Road in Northeast Philadelphia.

12 Thank you, Councilwoman and the Committee
13 on Finance, for providing a forum for
14 dialogue and discussion regarding the
15 impact and the merits of reform
16 provisions of the Philadelphia business
17 privilege tax. I would especially like
18 to thank Councilman Green and
19 Councilwoman Sanchez for bringing this
20 onto the forefront of reform over the
21 last several years.

22 To provide some background,
23 Sandmeyer Steel Company is a
24 third-generation, privately held
25 manufacturer and processor of stainless

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2 steel and nickel alloy plate products,
3 serving a variety of customers that we
4 generically call the process industries.
5 We employ approximately 115 people in the
6 City of Philadelphia. Our customers
7 manufacture equipment for many different
8 industries using our stainless steel and
9 nickel alloy plate products. We service
10 industries such as the oil and gas,
11 chemical, pulp and paper, water
12 purification, food processing,
13 semiconductor, solar equipment and, most
14 recently, the nuclear industry. We ship
15 to customers domestically throughout the
16 United States and have an ever-expanding
17 global presence that has now grown to 15
18 percent of our business.

19 As an aside, when I describe
20 our company to my friends and business
21 acquaintances and use the word
22 "third-generation steel manufacturer
23 located in Philadelphia," many marvel
24 that such a company with all those
25 attributes still exist.

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2 With all that has been said,
3 Sandmeyer Steel remains a proud
4 tax-paying corporate citizen in
5 Philadelphia since its inception in 1952,
6 and our company has provided jobs to many
7 over our existence, thus supporting the
8 City of Philadelphia through the City
9 wage tax. Corporately, our tax support
10 of City services rests primarily in our
11 payment of business privilege tax, real
12 estate tax, U&O, as well as many of the
13 associated licenses and permits. In
14 2012, Sandmeyer Steel Company will
15 celebrate its 60th anniversary as a
16 Philadelphia company.

17 For the period 2005 through
18 2010, Sandmeyer Steel, through its
19 presence and as an employer in
20 Philadelphia, has remitted to the City
21 treasury approximately \$4.2 million in
22 the taxes that I just enumerated. On
23 more than one occasion, we have spoken
24 about the possibility of moving outside
25 of the City of Philadelphia due to the

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2 onerous business privilege tax to a more
3 attractive location where we can more
4 easily sell to our national and worldwide
5 markets. In fact, we are only a short
6 three-tenths of a mile from the
7 Montgomery County line, and a move, while
8 financial and labor intensive in the
9 short term, could create a substantial
10 tax savings not only for our company but
11 for our employees well into the future.

12 About a year ago, I had the
13 privilege of testifying before City
14 Council regarding Bill 110635 that also
15 had ramifications, major ramifications,
16 and tax savings for our company. While
17 that bill would have provided even a
18 greater savings for us, we all realize
19 that compromise and cooperation are
20 necessary ingredients oftentimes in
21 getting things accomplished. The present
22 Bill 110554 is a testament to what
23 compromise and cooperation can accomplish
24 and allow good legislation and policy to
25 move forward.

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2 I am here today to support --
3 to render my support for Bill No. 110554,
4 which seeks to change certain features of
5 the Philadelphia business privilege tax,
6 which significantly affects our company.
7 When combining the six and a half percent
8 tax rate of the BPT, corporations located
9 in the City of Philadelphia face a heavy
10 tax burden, which can easily approach 50
11 percent when combined with state and
12 federal taxes. However, the most onerous
13 portion of the tax which you are now
14 addressing and attempting to correct
15 through this bill is the allocation
16 method of determining what net income is
17 taxable and allocable to Philadelphia.

18 The current existing method
19 creates an incredible disincentive for
20 Philadelphia businesses like Sandmeyer
21 Steel Company who have their predominant
22 presence of employees and capital
23 investments located in the City. Along
24 with other businesses who reside in
25 Philadelphia, we bear a relative

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2 disproportionate share of this income

3 tax, and it is a challenge in our

4 competitiveness in the global economy.

5 Each increase in the number of employees

6 and payroll, each purchase of equipment

7 and investment are accompanied by more

8 income allocated to Philadelphia and

9 inevitably an increase in the privilege

10 tax. In short, the current state of

11 Philadelphia taxation inevitably places

12 us at a disadvantage with our

13 non-Philadelphia competitors.

14 While Sandmeyer Steel Company

15 has and, in all probability, is committed

16 to remain in Philadelphia, under these

17 provisions I often wonder why any company

18 would consider Philadelphia as a

19 business-friendly environment to begin a

20 business or expand its existing presence

21 in the City. Moving the allocation

22 method from a three-factor formula based

23 on payroll, property and sales to a

24 single sales factor based strictly on

25 sales attributing income that is taxable

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2 to Philadelphia will be a major start and
3 go a long way to correcting the imbalance
4 in the City business privilege tax code.
5 It truly will give a signal to all
6 companies in the City and new companies
7 that Philadelphia is once again open for
8 business.

9 I have analyzed the impact of
10 these proposed changes on our company by
11 reviewing 2005 to 2010. On average, the
12 proposed changes, when fully implemented
13 under this bill, would have saved
14 Sandmeyer Steel Company approximately
15 \$165,000 per year and, over that six-year
16 period, close to \$1 million. Such
17 savings would result in additional
18 investment and more modern needed
19 equipment in growing our business and
20 inevitably in increasing employment as
21 our business grows. Most importantly, it
22 will assist us in becoming more
23 competitive and profitable and assure a
24 future stream of increasing tax receipts
25 to the City of Philadelphia.

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2 The combination of the change
3 in the allocation method of the income
4 tax portion along with the decline in
5 rate on income and changes to the gross
6 receipts portion of the tax are needed
7 elements of sound tax policy to enhance
8 the partnership between the business
9 community and the City of Philadelphia.

10 Earlier I asked why would any
11 company move into the City of
12 Philadelphia to conduct business
13 operations with the tax burdens that
14 exist. In the last year, we have
15 learned, and it has been well publicized,
16 that a new major employer, Teva
17 Pharmaceutical, is moving their suburban
18 facility into the City. Articles have
19 indicated that they will create 400
20 permanent jobs in the City, create 600
21 temporary construction jobs and will have
22 a major distribution center located in
23 Northeast Philadelphia. Ironically, Teva
24 Pharmaceutical will be our new neighbor
25 at Sandmeyer Steel Company. They share a

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2 fence line with us. Sandmeyer land will
3 also become a major thoroughfare for
4 their product movement.

5 More interestingly, I have also
6 learned -- and I believe my facts are
7 accurate -- that they have received major
8 tax benefits, one of which to receive an
9 exception to the business privilege tax
10 calculation to allow them to be based
11 strictly on the single sales tax formula.
12 It might be a little stretch that I'm
13 astonished that we would give tax relief
14 to create business. I'm not. That's a
15 good thing. And I might also stew about
16 having to pay this for the last 60 years
17 and providing the \$4.2 million in taxes
18 to the City in the last six years, having
19 paid the three-factor formula. I'll
20 leave that aside. More importantly, the
21 Teva story should offer another key piece
22 of evidence for Council to pass Bill No.
23 110554. If the privilege tax as
24 currently regulated weighs heavily on a
25 business like Teva, I can guarantee you

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2 it does on its neighbor Sandmeyer Steel
3 Company, with its 115 employees, along
4 with the businesses represented here
5 today.

6 Shouldn't the companies that
7 have had an allegiance to Philadelphia
8 for so many years receive the same tax
9 treatment? By implementing this change,
10 it will allow existing companies to do
11 business in their ever-increasing
12 competitive markets and, in so doing,
13 expand the tax base for the betterment of
14 the City.

15 In short, rather than making
16 this a Revenue Department exception, make
17 it a part of the tax code that would
18 entice others like Teva to move into the
19 City and convince companies like
20 Sandmeyer Steel Company and companies
21 represented today to remain in the City.

22 Members of Council, with the
23 economy in turmoil and with the
24 exasperating and continual high level of
25 unemployment, the time to act on this

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2 Bill 110554 is now to secure a better
3 future for Philadelphia, its business
4 community and its citizenry.

5 I do have the confidence in the
6 members of this Chamber that you will
7 thoughtfully consider what we have added
8 to this dialogue on tax reform. Your
9 decision regarding this bill will be a
10 key to the future progress of the City
11 and whether or not it will regain its
12 attractiveness for new business and
13 expansion of existing businesses.

14 Please vote and act on the
15 provisions of Bill No. 110554 and help
16 assure that Philadelphia regain its
17 prominence as an economically advancing
18 city in this great country of ours.

19 Thank you for your time and
20 attention that you provided me this
21 afternoon.

22 COUNCILWOMAN TASCO: Thank you
23 very much. We'll wait until everyone has
24 testified and then we'll open the floor
25 for questions.

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2 Mr. Stockwell.

3 MR. STOCKWELL: Yes. Good

4 afternoon, Chairwoman Tasco and members
5 of the Council. My name is William
6 Stockwell. I'm the owner and CEO of
7 Stockwell Elastomerics. We were founded
8 in 1919. We're a four-generation
9 business. We first began on 6th and Arch
10 Street, then we've moved to Fishtown in
11 1950. We moved from Fishtown up to our
12 present location off of I-95 and Academy
13 Road in 1981 where we are right now.
14 We're proud to be a Philadelphia company.

15 Our business is a custom
16 manufacturer of silicone rubber gaskets
17 and elastomeric components. We provide
18 components to technology sector companies
19 worldwide, not only in the country.
20 Actually, 12 percent our revenue is
21 shipped to Southeast Asia. We're very
22 proud of that.

23 We employ 77 people. Over half
24 of our people, 48, reside in the City of
25 Philadelphia. The average salary of our

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2 workers ranges from \$35,000 to start to
3 approximately 50,000 as an average, just
4 a base pay when they've been with us for
5 a while. We actually have a quarterly
6 gross profit margin that we distribute.
7 We're proud to say that we pay the vast
8 majority of medical and dental, and this
9 is -- the manufacturing sector does this
10 and other sectors of the economy do not.
11 We're very proud of this. It's good
12 work. It builds value.

13 Look, I have no intention to
14 move my business out of Philadelphia. I
15 love Philadelphia. What brings me to the
16 table, I didn't have a whole lot of data
17 as far as what this would save us, but I
18 have a very recent example of the cost of
19 running a business in Philadelphia.

20 I'm 57 years old. I'm the
21 fourth generation of my business. I have
22 nobody else behind me. My kids don't
23 want to run the business, and I'm trying
24 to attract new talent. I did a
25 nationwide search for a new Director of

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2 Sales, had somebody I thought signed up
3 and, at the last minute, the person
4 didn't sign on because their perception
5 is that Philadelphia is not a very
6 business-progressive community. I spoke
7 against that. I told this person that,
8 no, we're really in play here, but their
9 perception is my reality. The person
10 didn't come on board. I would have loved
11 to have had an example of this bill to
12 show them that we're making progress.

13 Like I said, I have no
14 intention to move out. But what happens
15 to a company like ours? What happens to
16 a company like ours? Let's say it's five
17 years from now and I don't have a
18 successor. The natural thing is for me
19 to sell the business, right? I mean, I
20 don't want to be an old man trying to do
21 what I do right now. What happens then
22 is a strategic buyer would likely come in
23 and buy the business and immediately look
24 at the tax disadvantage and yank the
25 thing up and we're history from this

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2 area. That's what happens in
3 transitions.

4 So I applaud you for
5 considering this. I hope you do it. We
6 intend to stick around for a long time.
7 If you want to come up and see our
8 facility, you're all welcome to come up.
9 It's a fun place.

10 Thank you.

11 COUNCILWOMAN TASCO: Thank you.

12 Thank you all for testifying.

13 The Chair recognizes Councilman
14 Green.

15 COUNCILMAN GREEN: Thank you,
16 Madam Chair.

17 Thank you so much for coming in
18 to testify. I know we've been working on
19 this and talking to many of you for quite
20 some time about this. I think it's worth
21 noting that the difference between the
22 four manufacturers between the original
23 proposal that we worked on last year and
24 this proposal is pretty miniscule in
25 terms of the tax differential. It's

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2 basically the gross receipts amount,
3 because you'll only be -- you and your
4 competitors will now only be paying
5 taxes, net income, on what you're selling
6 in Philadelphia.

7 And so, you know, I don't have
8 any questions for you. I think you are
9 all eloquent and clearly understandable,
10 and thank you very much.

11 COUNCILWOMAN TASCO: Anyone
12 else?

13 (No response.)

14 COUNCILWOMAN TASCO: We'd like
15 to thank you for testifying and trust
16 that as we pass this legislation and it's
17 in your favor, that the savings that you
18 gain from this, as you said, Mr. Kicak,
19 will be used to hire new employees. That
20 helps our real objective here, is to
21 create jobs, and if this bill helps, it
22 returns the dollars to us by having more
23 employees in the City of Philadelphia.

24 MR. KICAK: We thank you for
25 all your good work.

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2 COUNCILWOMAN TASCO: Thank you
3 very much. Thank you.

4 Next panel, Ms. --

5 (Applause.)

6 COUNCILWOMAN TASCO: Gloria
7 Bell. Is there a Nancy Minor here? And,
8 Ms. Bell, would you both come up, please.

9 (Witnesses approached witness
10 table.)

11 COUNCILWOMAN TASCO: Good
12 afternoon. Thank you for coming. Would
13 you identify yourself for the record,
14 please, and pull the microphone to your
15 lips.

16 MS. BELL: Good afternoon,
17 Councilmembers. Thank you very much for
18 having me here. My name is Gloria Bell.
19 I am the founder of Red Stapler
20 Consulting and I serve on the leadership
21 team of Philly Startup Leaders.

22 COUNCILWOMAN TASCO: You may go
23 ahead.

24 MS. BELL: Thank you.

25 A lot of the esteemed speakers

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2 here today, a lot of your own advisors, a
3 lot of the experts are going to give you
4 a lot of facts and figures and process
5 information, and what I want to share
6 with you today is something a little more
7 intangible. It's about the experience of
8 being a small business owner, a startup
9 company in the City of Philadelphia, what
10 not only I myself have experienced in the
11 three years that I've owned a business
12 here but also what members of my
13 organization have experienced, what I've
14 learned from various interactions with
15 other members of the startup community
16 here in Philadelphia.

17 For anyone who started a
18 business, one of the things that you
19 know, if you run a household or run a
20 business, one of the toughest things is
21 budgeting and making financial decisions
22 and deciding where your money is going to
23 go, where is the best place to spend it.
24 When you're dealing with a startup
25 company, especially one that's being

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2 bootstrapped by contributions from its
3 founders, by contributions from their
4 family and friends, those decisions get
5 even more difficult, and when you're
6 having to make a decision on am I putting
7 aside money to pay taxes or am I hiring a
8 new employee, am I upgrading my hardware,
9 am I buying new software, those decisions
10 become ones that keep us up at night.

11 One of the wonderful things
12 about running a business in the City of
13 Philadelphia and one thing I want to tell
14 you -- I am not originally from
15 Philadelphia. I've been in this area for
16 28 years. I've lived in the City itself
17 for six, and I don't see myself ever
18 leaving. I have come to love this city.
19 This has become home.

20 One of the things that is very
21 prevalent among my colleagues that work
22 in the startup community in Philadelphia
23 is, they feel the same way, Philadelphia
24 is home. And there are a lot of them
25 that are choosing to start companies

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2 here, to keep their companies here and
3 even some I know of that are moving their
4 companies into the City of Philadelphia,
5 and they're not doing it because it's the
6 easiest place to do business or the
7 cheapest place to do business, because by
8 far, compared to some of their options,
9 it's not. But what they're doing is
10 they're doing it because they believe in
11 this city and they love this city and
12 they want to see it grow.

13 What we would like to see is
14 the same love from City Council, from the
15 Administration, from all the government
16 officials and from big business in
17 Philadelphia for the startup community,
18 taking efforts like this bill that's
19 before you to say, We understand the
20 pressures you have, we understand the
21 decisions you have to make and we
22 understand how difficult it is to run a
23 business in the City of Philadelphia and
24 we want to find ways to help you. The
25 City's tagline is the City that loves you

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2 back. That's a really strong message to
3 the startup community that the City of
4 Philadelphia does love them back and
5 wants them here and wants them to stay
6 here.

7 COUNCILWOMAN TASCO: Thank you
8 very much.

9 Ms. Minor.

10 MS. MINOR: Good afternoon,
11 City Council. My name is Nancy Minor.
12 I'm with the United Steelworkers, and we
13 represent a thousand employees at the
14 Sunoco facility in South Philly and the
15 Marcus Hook facility in Delaware County.

16 We've spoken with several of
17 the City Councilmembers, most of the City
18 Councilmembers, over the past several
19 weeks regarding the upcoming sale or
20 closure of the facility. I'd like to
21 give you a different perspective as an
22 employee of a manufacturer that is
23 planning on closing or selling their
24 facility.

25 I've been with Sunoco for 20

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2 years. I love my job. We have a top --
3 we have a world-class group in that
4 facility, limited safety issues. Sunoco
5 has made a decision that is not going to
6 be changed. What your bill may do will
7 be encourage a new employer to come in
8 and run the facility and maintain not
9 only the thousand jobs in the facility
10 but the eight people that are affected by
11 every job loss in that plant. So we're
12 not talking a thousand people. We're
13 talking 8,000 in Philadelphia alone.

14 If your bill brings in a new
15 employer, you save -- the City will
16 continue to get the \$30 million in taxes
17 every year that Sunoco pays to them.

18 COUNCILWOMAN TASCO: Are you
19 finished?

20 MS. MINOR: Yes. Thank you.
21 I'm sorry. This is my first time.

22 COUNCILWOMAN TASCO: The Chair
23 recognizes Councilman Green.

24 COUNCILMAN GREEN: Thank you
25 very much.

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2 Thank you both for your
3 testimony. The City does love our
4 startup companies, and we want to see
5 someone buy the Sunoco plant. I think it
6 is significant that in very profitable
7 years, Sunoco pays a significant amount.
8 I'm not going to mention the dollars.
9 You put out a figure. Most of their
10 sales are outside the City. And so the
11 free cash flow that this change will
12 provide any acquirer of that company
13 allows them to make the decision. It
14 could be -- 30 million a year could be
15 the difference between penciling an
16 acquisition and saving a thousand jobs or
17 not, and they're a thousand well-paying
18 jobs with benefits, with wage taxes
19 probably approaching \$30 million.

20 So thank you very much for your
21 testimony, both of you.

22 COUNCILWOMAN TASCO: Any other
23 questions?

24 (No response.)

25 COUNCILWOMAN TASCO: Thank you

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2 very much. Thanks for taking the time.

3 And just so painful. It's just too

4 painful to listen to that, \$30 million.

5 MS. MINOR: Hopefully not.

6 (Applause.)

7 COUNCILWOMAN TASCO: Okay.

8 Now, we have -- the next panel will

9 testify on both bills, 110554 and 110548.

10 And before we begin with the witnesses, I

11 call on Councilmember Jim Kenney.

12 COUNCILMAN KENNEY: Madam

13 Chairperson, should the Clerk read the

14 bill.

15 COUNCILWOMAN TASCO: Oh, yeah.

16 Read the bill.

17 COUNCILMAN GREENLEE: He did.

18 He read them both.

19 COUNCILWOMAN TASCO: I'm sorry.

20 I'm moving too fast. We still have --

21 I'm sorry, SEIU. Please forgive me.

22 Don't shoot me. Testimony from Marvin

23 Robinson, Matthew Wah and Anna Kauffman

24 and Raymond Kerstetter testifying on Bill

25 110554.

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2 (Applause.)

3 (Witnesses approached witness
4 table.)

5 MS. GEMMELL: Good afternoon,
6 Finance Committee. Thank you for giving
7 us the opportunity to consider this new
8 bill in City taxation. My name is Anne
9 Gemmell. I live in a neighborhood filled
10 with small businesses and I serve as the
11 democratic committeewoman in that
12 neighborhood filled with small
13 businesses. And I'm also very proud to
14 be here today as the Political Director
15 of an organization called Fight for
16 Philly. Fight for Philadelphia has been
17 spending most of the summer, beginning
18 last May and June, knocking on doors in
19 neighborhoods that have been hard hit by
20 the Great Recession and talking to people
21 about what caused the recession and how
22 we can begin to fix the recession. And
23 one of our main concerns is
24 accountability at all levels, for
25 corporations being good citizens, for

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2 government looking out for the little
3 guy.

4 So we have some voices here to
5 speak to this bill today. Thank you for
6 the opportunity to address you all.

7 COUNCILWOMAN TASCO: Thank you
8 for coming.

9 MR. WAH: Hello. My name is
10 Matthew Wah. I'm 21 years old. I am
11 from the Frankford neighborhood and
12 graduated from Frankford High School in
13 2008. I'm here because I notice a
14 decline in my neighborhood, and small
15 businesses like mom-and-pop shops are
16 closing down, and now what was once a
17 safe and beautiful neighborhood is now
18 dangerous and filled with poverty. And
19 this is not fair to our children, which
20 is the future of Philadelphia.

21 For this reason, I ask the
22 Council Finance Committee to pass the BPT
23 reform and help our neighborhood
24 businesses survive during these tough
25 times.

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2 Thank you.

3 COUNCILWOMAN TASCO: Thank you.

4 I appreciate your testimony.

5 Young man.

6 MR. ROBINSON: My name is

7 Marvin Robinson. I'm a committeeman in
8 the 4th Ward, 15th Division, also a block
9 captain. I just want to sit here and ask
10 the Council, all of y'all that's going to
11 make the decision on this bill, I hope
12 y'all make the right decision, because
13 this is going to benefit the people that
14 have small businesses in the community,
15 for them to grow, because the big
16 corporates has already took enough from
17 the small business.

18 So I hope this bill that y'all
19 believe to have in front of y'all, y'all
20 will pass it, and that's all I'm here
21 for, to support the bill.

22 COUNCILWOMAN TASCO: Thank you
23 very much for taking time to come to
24 testify. We appreciate that.

25 MS. KAUFFMAN: Good afternoon,

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2 Councilmembers. My name is Anna Kauffman
3 and I am in the Northeast Philadelphia
4 area. I am a senior citizen and I have
5 worked for the City of Philadelphia
6 within the City for 50 years. I own a
7 small duplex. It's an owner-occupied
8 duplex that I pay taxes on and they're
9 sort of like escalating beyond my
10 in-pocket expenses. And I also have a
11 new tax that's called the refuse
12 collection fee tax that I must pay every
13 year out of pocket.

14 I pride my home and I'm trying
15 to save my home and not give it up and
16 move out of Philadelphia like a lot of
17 residents have. And we have a lot of
18 abandoned factories that are idle, just
19 sitting by idle for many, many years, a
20 real eyesore to our community, and I
21 would like the Committee to pass this
22 bill as well to help our small
23 businesses.

24 I talk to people and they're
25 very unhappy -- they couldn't be present

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2 because they run a restaurant business,
3 and that's very difficult to break away
4 time to come here, but they do know the
5 facts and I told them I would come and
6 speak for this bill for them to help us
7 out. We really need help. And I've been
8 asking the Mayor for two years, please
9 help us.

10 Thank you.

11 COUNCILWOMAN TASC0: Thank you
12 very much.

13 (Applause.)

14 MR. KERSTETTER: Good
15 afternoon, fellow Philadelphians. My
16 name is Raymond Kerstetter. I don't
17 really have a speech to give, but I'll
18 just be short and sweet.

19 I have been born and raised in
20 Philadelphia. I moved to Virginia. I
21 moved back to Philadelphia. And my
22 business is just a very, very small
23 hobby-come-home-based business, and the
24 reason why I was testifying was the fact
25 that I feel that I shouldn't be penalized

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2 to -- without having a brick and mortar
3 operation, just out of my home, to be
4 required to, one, have a license and
5 collect on like gross receipts, because
6 my receipts are far, far less than the
7 people that have given testimony prior.
8 And I just feel that I'm all for
9 businesses and paying taxes and paying
10 sales and use tax. It is our duty, our
11 civic duty, but I just feel that in order
12 to just have a small business, I just
13 feel that we should just operate without
14 any kind of restrictions such as
15 licensing or any of that.

16 I'm pretty sure like a lot of
17 people are vest pocket dealers and people
18 that sell maybe Avon or Tupperware or
19 whatnot, and I just felt that, you know,
20 I really strongly hope that you get
21 together and do something to help us
22 little people kind of survive in these
23 times.

24 Thank you very much for your
25 time.

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2 COUNCILWOMAN TASCO: We thank
3 you.

4 We thank all of you for coming
5 down to testify on this piece of
6 legislation.

7 (Applause.)

8 COUNCILWOMAN TASCO: It's very
9 helpful. And come again.

10 Any other questions, comments?

11 (No response.)

12 COUNCILWOMAN TASCO: Thank you
13 all for coming.

14 Now we'll move to the next
15 panel, Councilman Kenney.

16 We'll first have the Clerk read
17 the bill for 110548.

18 COUNCILMAN GREENLEE: He read
19 it.

20 COUNCILWOMAN TASCO: He read it
21 already? Okay.

22 Councilman Kenney.

23 COUNCILMAN KENNEY: Thank you
24 very much, Madam Chair, and thanks for
25 all of the witnesses who testified on the

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2 Green/Sanchez bill and will be testifying
3 on both that bill and Bill No. 110548. I
4 just have a quick statement prior to the
5 testimony on that bill.

6 Over the past three years, the
7 economic recession has severely
8 restricted our business community's
9 ability to grow, innovate and employ
10 members of our city's workforce. New
11 businesses and entrepreneurs not only
12 face a tough market, but they face
13 City-imposed financial barriers to
14 starting a business in Philadelphia. At
15 a time when 11 percent on record but more
16 like 24 to 25 percent of our city
17 residents are unemployed and business
18 activity is stagnant, we have a
19 commitment to use all the tools at our
20 disposal to breathe some life into our
21 economy.

22 The last few budget cycles have
23 forced us to make some tough choices
24 regarding tax increases. So our
25 challenge is to use targeted incentives

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2 to attract new businesses and create new
3 jobs. This will also help us compete
4 with the suburbs and other cities in the
5 region.

6 The Kauffman Foundation's
7 report, entitled "Starting Smaller,
8 Staying Smaller: America's Slow Leak in
9 Job Creation," states that the way to
10 confront these challenges across the
11 United States is to start more employer
12 businesses, ensure that they are starting
13 larger and nurture their growth. The
14 Foundation's research shows that before
15 the recession, roughly one in two new
16 businesses nationwide survive the first
17 five years. Now the rate of business
18 survival is starkly lower, and the
19 recession is also causing businesses to
20 hire fewer employees. Their report
21 explains that once businesses survive
22 their early years, they tend to expand
23 hiring.

24 Bill 110548, as amended, aims
25 to do exactly this - provide an incentive

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2 for businesses that is directly tied to
3 job creation. Offering a financial
4 reprieve from certain business fees for
5 the first two critical years, the
6 legislation seeks to attract small
7 businesses to Philadelphia that will hire
8 local residents.

9 Specifically, the legislation
10 eliminates the fee for the business
11 privilege license, imposes no business
12 taxes, eliminates fees for certain
13 business licenses and eliminates fees
14 related to zoning and planning for the
15 first two years.

16 To ensure that these new
17 businesses hire Philadelphians, the bill
18 requires that they employ at least three
19 employees after one year and employ at
20 least six by a year and a half. These
21 employees must work in the City at least
22 60 percent of the time.

23 The bill effectively reduces
24 the cost of doing business in
25 Philadelphia by eliminating the tax

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2 burden. We can allow businesses to
3 reinvest their earnings. By reducing
4 certain license and permit fees, we can
5 reduce startup costs. These two
6 incentives allow more businesses to hire
7 more workers, especially the
8 entrepreneurs and small startup
9 businesses that most need our help.

10 I'd like to say in addition
11 that I believe that the Green/Sanchez
12 bill is crafted in a great way and will
13 go a long way in helping all size
14 businesses going forward. The purpose of
15 this bill is to give incentives for
16 people to start a business in
17 Philadelphia, whether it's a small
18 business or a medium-sized business or a
19 large business. The waiver of the two
20 years of business taxes because you've
21 created at least six jobs in that year
22 and a half or two years I think is a
23 great incentive to keeping businesses
24 alive.

25 So I expect that -- I look

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2 forward to supporting the Green/Sanchez
3 bill on their BPT approach and I also
4 look forward to putting this bill into
5 place to get some job jump-start in
6 Philadelphia over the next two years. So
7 I think both complement each other. I
8 look forward to hopefully five years from
9 now having to figure out how we can lower
10 business taxes overall because there's a
11 larger pool of businesses paying taxes
12 and a larger pool of people paying wage
13 taxes.

14 While it's important to note
15 that the six employees created by any new
16 job in Philadelphia over the two-year
17 period, those employees would pay the
18 wage tax, so that there is a continuing
19 flow of revenue into the City's coffers;
20 however, these people will at least be
21 employed.

22 And just as a final comment,
23 and I've said this to my colleagues here,
24 almost every problem that we deal with in
25 the City, whether it's crime, whether

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2 it's court costs, whether it's education,
3 whether it is DHS services that are
4 required for families, I think that every
5 single one -- drug abuse and drug
6 addiction and drug treatment -- every
7 single one of those problems result in
8 the fact that the person is not working,
9 because if they were working --

10 (Applause.)

11 COUNCILMAN KENNEY:

12 Hypothetically -- and I know it will
13 never happen. Hopefully we'll continue
14 to move towards that goal. But imagine
15 if every person in the City who could
16 work and want to work was working, the
17 money we would not spend on those human
18 services and police and courts and
19 prisons.

20 So I'm looking forward to these
21 two bills getting out of Committee
22 together and moving forward to create a
23 better environment for all working people
24 regardless of the size of the business.

25 So thank you for your being

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2 here today.

3 COUNCILWOMAN TASCO: Thank you
4 very much.

5 Councilman Green.

6 COUNCILMAN GREEN: Thank you,
7 Madam Chair.

8 I just want to say thank you,
9 Councilman Kenney, for your comment about
10 our bill. Really we're headed in the
11 same direction with these two measures.
12 The BPT reform proposed by Councilwoman
13 Sanchez and I levels the playing field,
14 so that when you're a Philadelphia
15 business and you're selling goods and
16 you're competing locally or around the
17 world, you pay the same tax to the City
18 of Philadelphia as someone who is not
19 based here in the City of Philadelphia.
20 It also provides -- and what your bill
21 does is level the playing field at the
22 inception of a business, because when a
23 business starts, they will pay no taxes
24 here to start here and they will pay no
25 taxes outside the City to start there,

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2 and hopefully the combination will let
3 them start here and then stay here. So I
4 look forward to working with you.

5 COUNCILMAN KENNEY: And it's
6 nice being on the same page.

7 COUNCILWOMAN TASCO: Kumbaya.

8 (Applause.)

9 COUNCILWOMAN TASCO: Great.

10 The first panel, we have Mr. Wonderling,
11 President of the Chamber of Commerce;
12 Mr. Joseph Mahoney, Philadelphia Chamber
13 of Commerce; Stewart Weintraub from the
14 Chamberlain; and Mary Faustino from the
15 Asian American Chamber of Commerce, if
16 she's here.

17 (Witnesses approached witness
18 table.)

19 COUNCILWOMAN TASCO: Good
20 afternoon.

21 MR. MAHONEY: Good afternoon.

22 COUNCILWOMAN TASCO: Thank you
23 so much for being here and testifying,
24 and certainly I'm sure you enjoyed the
25 testimony from our citizens in

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2 Philadelphia, who really care about
3 what's happening here in the City and
4 want businesses to come so we can create
5 jobs and cut down on some of the problems
6 that we have.

7 So we welcome you and ask you
8 to begin your testimony. Who is going to
9 testify?

10 MR. MAHONEY: I'm going to
11 testify first.

12 COUNCILWOMAN TASCO: Okay.
13 Mr. Mahoney.

14 MR. MAHONEY: Thank you,
15 Chairwoman Tasco. We agree with your
16 statements and with those of Councilman
17 Kenney and of Councilman Green, to start
18 the testimony.

19 For the record, I'm Joe
20 Mahoney, Executive Vice-President of the
21 Greater Philadelphia Chamber of Commerce,
22 and I'm here today to present testimony
23 in support of City Council Bills 110548
24 and 110554. Joining me at the witness
25 table today is Rob Wonderling, the

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2 President of the Greater Philadelphia --
3 President and CEO of the Greater
4 Philadelphia Chamber of Commerce; Stewart
5 Weintraub, the Co-Chair of our State and
6 Local Tax Committee and a well-recognized
7 and respected expert on local taxes here
8 in Philadelphia; and Mary Faustino of the
9 Asian American Chamber.

10 First, let me applaud the
11 sponsors of these bills for their keen
12 observation that with unemployment in the
13 City hovering at almost 12 percent, the
14 primary tool that will spur the economy
15 out of one of the worst economic
16 downturns since the Great Depression is
17 new businesses coming to the City and
18 providing jobs for local residents.

19 According to the Bureau of
20 Labor Statistics, the City continues to
21 lose jobs. It had an average of 657,000
22 jobs in 2010. By August of this year,
23 the number had declined to 647,000. The
24 only sector that grew was leisure and
25 hospitality, which rose from an annual

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2 average of 58,400 last year to 61,600 as
3 of August of this year.

4 As previously mentioned, the
5 high unemployment rate in the City is
6 even higher among certain categories of
7 workers. For instance, the unemployment
8 rate among black and Latino men in the
9 City was over 20 percent at the end of
10 last year and will most likely worsen
11 this year.

12 It is no coincidence that it
13 was almost a year ago that I came before
14 City Council to debate business privilege
15 tax legislation that was designed to
16 attract businesses, but unfortunately
17 created winners and losers among our
18 membership and we could not support it.
19 Due to a diligent working group
20 consisting of members of Council, their
21 staff and the Administration, one year
22 later we have a much better draft of
23 legislation that is aimed to entice
24 businesses and create jobs for local
25 residents and does not create winners and

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2 losers.

3 Bill 110548, introduced by
4 Councilman-At-Large Kenney, amends Title
5 19 of The Philadelphia Code, entitled
6 "Finances, Taxes and Collections," and
7 such other provisions as may be
8 appropriate, to eliminate, waive or
9 reduce certain fees and permit charges on
10 new businesses for two years for the
11 creation of jobs, all under certain terms
12 and conditions.

13 This bill, known as Jump-Start
14 Philly Legislation, is designed to entice
15 businesses to locate here and to create
16 new jobs for local residents by exempting
17 from all business-related license fees
18 for the first two years of operation any
19 new business that employs at least six
20 full-time employees who live in the City,
21 at least three in the first year and, as
22 Councilman Kenney said, six in the
23 second. This bill includes an exemption
24 from all business-related license fees,
25 business privilege taxes, transfer taxes

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2 and zoning-related fees for the first two
3 years of operation. It does not,
4 however, include exemptions from real
5 estate or use and occupancy taxes, as
6 these taxes provide revenue for the
7 School District.

8 Bill 110554, introduced by
9 Councilwoman Sanchez and
10 Councilman-At-Large Green, amends Chapter
11 19-2600 of The Philadelphia Code,
12 entitled "Business Privilege Taxes," by
13 providing certain exclusions, modifying
14 certain definitions, and revising certain
15 tax rates, all under certain terms and
16 conditions.

17 The current BPT structure puts
18 Philadelphia-based businesses at a
19 competitive disadvantage. This BPT
20 reform bill is designed to provide
21 significant tax relief for
22 Philadelphia-based and small businesses,
23 including startup firms, which are an
24 engine of job growth in Philadelphia.

25 Bill 110554 has two main

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2 components - an exemption for the first
3 \$100,000 of gross receipts and a
4 proportionate share of net income for all
5 businesses. This exemption would be
6 phased in starting in 2014, which I
7 believe is FY15. The other component of
8 the Bill 110554 would put into place the
9 single sales factor apportionment,
10 meaning that Philadelphia businesses
11 would pay the high rate, 6.45 percent,
12 net income only on income derived from
13 sales in Philadelphia. It is projected
14 that this legislation will provide over
15 50 million per year of tax relief
16 targeted toward Philadelphia-based and
17 small businesses and, again, does not
18 create a system of winners and losers.

19 During 2003, the Tax Reform
20 Commission recommended a ten-year
21 phaseout of the BPT and a change in the
22 apportionment formula to a single sales
23 factor. The Greater Philadelphia Chamber
24 of Commerce championed the Commission's
25 recommendations then and now. This

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2 legislation is a step in that direction.

3 With respect to using the
4 single sales factor when determining
5 one's tax liability, the 2003
6 Philadelphia Tax Reform Commission's
7 final report said in Recommendation 18,
8 Adopt single sales factor apportionment.
9 Adopt sales receipts as the only factor
10 for apportioning the net income base of
11 multi-jurisdictional businesses. The
12 current formula for apportioning income
13 in Philadelphia double weights sales and
14 equally weights the contribution of local
15 property and payroll to a business's net
16 income. Businesses that make sales in
17 Philadelphia without locating here
18 benefit from the current formula, while
19 businesses maintaining buildings and
20 employees in the City are penalized.
21 This change would simplify business
22 privilege tax payment and collection
23 while removing the disincentive to locate
24 and grow jobs here.

25 Several of the initiatives

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2 contained in the aforementioned bills are
3 also consistent with the recommendation
4 of the Mayor's Task Force on Tax Policy
5 and Economic Competitiveness of 2009.

6 We believe that the combination
7 of a waiver on fees and permits, coupled
8 with the \$100,000 exemption, will level
9 the playing field for Philadelphia
10 businesses and will have a minimal impact
11 on out-of-town businesses. And since
12 both Bills 110548 and 110554 meet the
13 mandate of our recently adopted
14 Principles for Economic Competitiveness,
15 in that they foster job growth and
16 competitiveness, we are pleased to offer
17 our support.

18 Again, on behalf of the
19 business community in this region, I
20 would like to applaud the sponsors of
21 these bills which, if enacted, will have
22 a very positive impact on the economy of
23 this city.

24 Thank you for the opportunity
25 to make the comments today.

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2 COUNCILWOMAN TASCO: Thank you.

3 Who else is testifying?

4 Thank you. Ms. Faustino.

5 MS. FAUSTINO: Thank you. Good
6 afternoon, members of City Council,
7 Councilmen Kenney, Green and Councilwoman
8 Sanchez of the Finance Committee. I am
9 Mary Faustino, Interim Executive Director
10 of the Asian American Chamber of Commerce
11 of Greater Philadelphia. Since early
12 2004, our mission has been to assist
13 Asian community businesses as minority
14 business owners in encouraging, assisting
15 and promoting their business growth.

16 The Asian American Chamber of
17 Commerce of Greater Philadelphia supports
18 the Greater Philadelphia Chamber of
19 Commerce in supporting City Council Bills
20 110548 and 110554.

21 Both bills would inspire new
22 businesses for the City of Philadelphia
23 and would help encourage our existing
24 Philadelphia businesses, both large and
25 small, that the City of Philadelphia is

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2 helping in their bottom line.

3 Thank you for your attention,
4 and the Asian Chamber looks forward to
5 the next step to encourage the passing of
6 Bills 110548 and 110554.

7 Thank you.

8 COUNCILWOMAN TASCO: Thank you
9 very much.

10 Any questions from members of
11 the panel here to this panel?

12 (No response.)

13 COUNCILWOMAN TASCO: Thank you
14 very much. I think they worked on it so
15 hard, they're just glad to see you here
16 supporting it. Thank you.

17 (Applause.)

18 COUNCILWOMAN TASCO: Well,
19 Mr. Dubow, you just knew you were going
20 to be on time.

21 (Witnesses approached witness
22 table.)

23 COUNCILWOMAN TASCO: Good
24 afternoon.

25 MR. DUBOW: Good afternoon.

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2 COUNCILWOMAN TASCO: Would you
3 please state your name for the record and
4 proceed with your testimony.

5 MR. DUBOW: May I apologize in
6 advance for the testimony getting up here
7 so late. We were working with some of
8 the sponsors of the bills.

9 I'm Rob Dubow. I'm the Finance
10 Director for the City of Philadelphia,
11 and I'm joined at the witness table by
12 Revenue Commissioner Keith Richardson.
13 We are here today to testify and answer
14 questions on two bills before the
15 Committee, Bills 110548 and 110554. We
16 are pleased to say we've come to
17 agreements with the sponsors of both
18 these bills on amendments that would
19 maintain the basic policy aims of the
20 bills while accounting for the
21 significant budgetary impacts of the
22 proposals.

23 I want to thank Councilmembers
24 Quinones-Sanchez, Green and Councilman
25 Kenney for these proposals and the

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2 opportunity to continue our ongoing
3 dialogue on how best to improve
4 Philadelphia's competitiveness through an
5 improved business tax policy.

6 We're focused on this important
7 issue of stimulating our local economy,
8 particularly in the current climate of
9 continued economic recession and high
10 unemployment.

11 The Administration has been
12 analyzing potential changes to the BPT
13 since the Mayor's first day in office.
14 Prior to his Administration, Councilman
15 Nutter championed business and wage tax
16 reductions for all Philadelphians. Most
17 recently over the course of the past
18 year, we have worked in partnership with
19 Council; in particular, with the offices
20 of Councilmembers Green and Sanchez, to
21 study the impacts of different business
22 tax changes. Councilman Kenney's
23 proposals have added another important
24 element to these discussions.

25 The Administration believes

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2 that both bills have positive elements
3 that we support. We originally had some
4 concerns with the bills and have had
5 ongoing discussions with the
6 Councilmembers and their staffs regarding
7 proposed changes to the bills. Our
8 concerns with the bills were related to
9 the budgetary constraints and concerns we
10 have regarding some of the administrative
11 barriers to implementation, not to the
12 general policy goals of the bills.

13 I will now proceed to outline
14 what each bill does and our understanding
15 of the purpose of the bills, the
16 estimated impact of the proposals, and
17 I'll address each bill separately.

18 Bill 110548 would eliminate the
19 business privilege license fee for all
20 businesses, and under amendments we've
21 discussed with the Councilman, this
22 provision would take effect in FY14.

23 The bill would also eliminate
24 business taxes and license fees for the
25 first two years of operation for all new

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2 businesses that continuously employ at
3 least three full-time employees by the
4 end of the first year of operation and
5 that continuously employ at least six
6 full-time employees between a year and a
7 half and two years of operation. Those
8 businesses would also be exempted from
9 the business privilege license fee
10 immediately. We understand the purpose
11 of this bill is to lower the costs
12 associated with starting a new business
13 in order to stimulate new business
14 formation and increase employment among
15 Philadelphians. We share that goal.

16 The total estimated revenue
17 impact of this proposal based on the
18 amendments we've discussed is
19 approximately 20 million over the course
20 of the Five Year Plan. The testimony
21 breaks that down, but I won't go into the
22 detail.

23 The analysis is based on actual
24 business creation data available in
25 Department of Revenue records. It

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2 doesn't account for any additional
3 business creation that may result if this
4 proposal has its intended effect of
5 stimulating new business creation. In
6 addition, it doesn't account for any
7 changes in the way firms structure their
8 businesses or operations in order to take
9 advantage of the exclusion from business
10 taxes and fees for eligible new
11 businesses.

12 We recognize that proposed
13 amendments we've discussed with the
14 Councilman contain language to tighten up
15 the proposed definition of new businesses
16 to give the Revenue Department additional
17 tools to try to prevent such gaming of
18 the system.

19 Also, it's important to discuss
20 these proposals in the context of the
21 City's overall financial situation. Our
22 current projected fund balance in the
23 Five Year Plan is below 30 million in
24 each of the Plan's last two years, and
25 the stalling national economy has led to

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2 revenues coming in lower than projected
3 which, if current trends continue, would
4 cost the City's General Fund almost \$50
5 million a year. That was the context in
6 which we discussed potential changes to
7 these bills with the Councilmembers.

8 We are generally in favor of
9 the concept of eliminating fees for the
10 business privilege license. While the
11 financial conditions we just discussed
12 made it impossible for us to support the
13 bill as originally proposed, we have
14 worked with Councilman Kenney to develop
15 amendments to the bill to delay when the
16 fees will be eliminated for already
17 established businesses until 2014. With
18 those amendments, all proposed changes
19 for new businesses as defined in the
20 bill, including elimination of the
21 business privilege license fee for those
22 businesses, would be effective as
23 originally proposed beginning January
24 '12.

25 There are some administrative

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2 components of the bill that will require
3 some additional work on the Department of
4 Revenue's part that will probably result
5 in the need for new employees. That's
6 detailed in the testimony.

7 I also note that the bill
8 contains a proposal regarding originally
9 included -- it included a gross receipts
10 exclusion for all businesses, similar to
11 the proposal contained in Bill 110554,
12 but the amendments shared with us would
13 eliminate the proposal in deference to
14 the proposal in Bill 110554.

15 In summary, based on the
16 amendments we have discussed with
17 Councilman Kenney, we are pleased to be
18 able to support this proposal, which will
19 provide more than 20 million in tax and
20 fee relief for businesses over the course
21 of the Five Year Plan.

22 Bill No. 110554 would provide a
23 \$100,000 across-the-board exclusion on
24 the gross receipts portion of the
25 business privilege tax for all businesses

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2 scaled in over a three-year period
3 beginning in Fiscal Year '15; a
4 proportional exclusion on the net income
5 portion of the business privilege license
6 for all businesses, again, scaled in over
7 three years beginning in FY15; suspension
8 of scheduled gross receipts rate
9 reductions scheduled for years beginning
10 in FY14; a modified net income rate
11 reduction that is slower than what is
12 currently implemented by law and in the
13 original version of the bill immediate
14 implementation of single sales factor
15 apportionment, although we understand
16 that would be amended.

17 Our understanding of the
18 purpose of this bill is to benefit small
19 and medium-sized businesses by providing
20 the gross receipts and proportional net
21 income exclusion and removing a
22 disincentive for businesses to locate in
23 Philadelphia by implementing single sales
24 factor apportionment, because our current
25 structure taxes companies based on the

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2 amount of property, payroll and sales
3 they have in the City. By taxing
4 property and payroll, the BPT provides a
5 disincentive for firms to locate or have
6 employees inside the City.

7 The total estimated impact of
8 the bill as originally proposed was
9 approximately \$85 million over the course
10 of the Five Year Plan, and the testimony
11 has a breakdown of that.

12 Based on analysis conducted by
13 the Department of Revenue, in the
14 aggregate Philadelphia-based firms, as we
15 have come to define them working with the
16 sponsors of this bill, would benefit from
17 \$50 million of the total \$48 million
18 annual tax reduction when the bill is
19 fully implemented. In the aggregate,
20 businesses with some Philadelphia
21 presence would benefit from over 2
22 million in reduced tax liability.
23 Meanwhile, in the aggregate,
24 non-Philadelphia-based firms would assume
25 a \$4.3 million increase in their

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2 liability.

3 Almost all business sectors
4 would benefit from this proposal. A
5 handful of large firms in chemicals,
6 pharmaceutical and petroleum
7 manufacturing firms would receive a
8 substantial tax liability reduction.

9 With regard to business size,
10 while some small businesses benefit and
11 others fare worse, overall almost 50
12 percent of the tax reduction benefit
13 would go to small businesses, defined as
14 businesses with \$1 million or less in
15 annual gross receipts. Large businesses
16 with over 50 million in annual gross
17 receipts would receive almost 40 percent
18 of the tax reduction amount.

19 Similar to the analysis
20 described above, this analysis does not
21 account for any additional business
22 creation that may result if this proposal
23 has its intended effect of stimulating
24 new business creation.

25 We did have some concerns with

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2 the bill as originally proposed and have
3 had discussions with the sponsors on
4 modifications. Given the financial
5 challenges facing the City, we couldn't
6 afford the very significant cost of the
7 bill as introduced. We have, however,
8 worked with the sponsors to come to a
9 resolution to keep the key elements of
10 the proposal in place while delaying
11 their impact in order to make this
12 proposal work within the confines of our
13 Five Year Plan.

14 We are in agreement with
15 providing a phase-in of the gross
16 receipts and net income exclusions
17 starting in FY15 at 50,000, going to 75
18 in FY16 and 100,000 in FY17 and
19 thereafter. The net cost of this
20 proposal, when balanced with the
21 elimination of planned reductions in
22 gross receipts and the slowing down of
23 reductions in net income rates, is about
24 \$5 million over the life of the Plan.

25 We are also in agreement with

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2 the concept of implementing single sales
3 factor apportionment starting no later
4 than tax year 2015, which corresponds to
5 Fiscal Year 2016, and support amendments
6 to put that proposal in place. When
7 fully implemented, this will cost
8 approximately \$20 million per year.

9 In summary, we are pleased to
10 be able to support this bill with
11 amendments we have discussed with
12 sponsors.

13 In conclusion, on behalf of the
14 Mayor, we want to again thank the
15 sponsors of these proposals for their
16 efforts in pushing these significant
17 issues, with the shared goal of improving
18 our business climate and attracting and
19 retaining employers in Philadelphia. We
20 appreciate the efforts of the sponsors to
21 negotiate the terms of these proposals
22 and to be sensitive to our budgetary
23 constraints as we do so.

24 Thank you for the opportunity
25 to provide testimony on this bill, and we

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2 would be pleased to answer any questions
3 you have.

4 COUNCILWOMAN TASCO: Thank you.

5 Are there any questions from
6 members of the Committee?

7 (No response.)

8 COUNCILWOMAN TASCO: There are
9 no questions. Thank you very much.

10 MR. DUBOW: Sounds good.

11 Thanks.

12 COUNCILWOMAN TASCO: Is there
13 anyone else here to testify on these two
14 bills?

15 (No response.)

16 COUNCILWOMAN TASCO: There
17 being none, we will now close our public
18 hearing and go into our public meeting.

19 The Chair calls on Councilman
20 Green to offer the amendment on Bill No.
21 110554.

22 COUNCILMAN GREEN: Thank you,
23 Madam Chair. I offer an amendment, which
24 has been previously circulated, on Bill
25 No. 110554.

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2 (Duly seconded.)

3 COUNCILWOMAN TASCO: It has
4 been moved that the amendment be adopted
5 for Bill 110554.

6 All in favor?

7 (Aye.)

8 COUNCILWOMAN TASCO: Is there
9 any opposition?

10 (No response.)

11 COUNCILWOMAN TASCO: There
12 being none, the motion is carried.

13 The Chair recognizes
14 Councilwoman Blackwell to report Bill
15 110554 out of Committee with an
16 amendment, with a suspension.

17 COUNCILWOMAN BLACKWELL: Thank
18 you, Madam Chairman. I move that Bill
19 No. 110554, as amended, be reported out
20 of Committee and that the rules be
21 suspended in order to permit first
22 reading at our next session of Council.

23 (Duly seconded.)

24 COUNCILWOMAN TASCO: It has
25 been moved and seconded that Bill No.

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2 110554, as amended, be reported out of
3 Committee with a favorable recommendation
4 and that the rules of Council be
5 suspended so this bill can be heard at
6 Council's next session.

7 All in favor will say aye.

8 (Aye.)

9 COUNCILWOMAN TASCO: Is there
10 any opposition?

11 (No response.)

12 COUNCILWOMAN TASCO: There
13 being none, this motion is carried.

14 The Chair recognizes
15 Councilwoman Blackwell to report out Bill
16 110548 -- the amendment. I'm sorry; the
17 amendment to the bill.

18 COUNCILWOMAN BLACKWELL: Thank
19 you, Madam Chairman. I move --

20 COUNCILMAN KENNEY: I'm sorry.
21 Is there additional amendments to the
22 Green/Sanchez bill or have they already
23 been --

24 COUNCILWOMAN TASCO: They just
25 did this.

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2 COUNCILMAN KENNEY: But there
3 aren't any additional ones? I'm just
4 asking if there were.

5 COUNCILWOMAN TASCO: We just
6 did the amendment.

7 COUNCILMAN KENNEY: I'm saying
8 but there are no additional ones besides
9 that?

10 COUNCILWOMAN TASCO: No.
11 Would you report out -- we'd
12 like for you to call up the amendment for
13 Bill No. 110548.

14 COUNCILMAN KENNEY: Thank you,
15 Madam Chair. I move that Bill No.
16 110548 --

17 COUNCILWOMAN TASCO: Accept the
18 amendment first.

19 COUNCILMAN KENNEY: -- be
20 amended accordingly as to the amendments
21 circulated to the members of the
22 Committee.

23 (Duly seconded.)

24 COUNCILWOMAN TASCO: It has
25 been moved and seconded we adopt the

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2 amendment as circulated to Bill 110548.

3 All in favor will say aye.

4 (Aye.)

5 COUNCILWOMAN TASCO: Is there
6 any opposition?

7 (No response.)

8 COUNCILWOMAN TASCO: There
9 being none, the motion is carried.

10 The Chair recognizes
11 Councilwoman Blackwell to report out Bill
12 No. 110548.

13 COUNCILWOMAN BLACKWELL: Thank
14 you, Madam Chair. I move that Bill No.
15 110548, as amended, be reported out of
16 Committee and that the rules of Council
17 be suspended in order to permit first
18 reading at our next session of Council.

19 (Duly seconded.)

20 COUNCILWOMAN TASCO: It has
21 been moved and seconded that Bill No.
22 110548, as amended, be reported out of
23 Committee with a favorable recommendation
24 and that the rules of Council be
25 suspended so this bill can be heard at

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2 Council's next session.

3 All in favor will say aye.

4 (Aye.)

5 COUNCILWOMAN TASC0: Is there
6 any opposition?

7 (No response.)

8 COUNCILWOMAN TASC0: There
9 being none, this bill is carried.

10 We thank you all very much, and
11 this Committee is adjourned.

12 (Committee on Finance adjourned
13 at 2:50 p.m.)

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CERTIFICATE

I HEREBY CERTIFY that the proceedings, evidence and objections are contained fully and accurately in the stenographic notes taken by me upon the foregoing matter on October 24, 2011, and that this is a true and correct transcript of same.

MICHELE L. MURPHY
RPR-Notary Public

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