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

- - -

Room 400, City Hall

Philadelphia, Pennsylvania

Wednesday, May 19, 2004, 1:25 p.m.

- - -

BILL 040397 - An Ordinance amending Chapter 19-1500 of The Philadelphia Code, entitled "Wage and Net Profits Tax," by decreasing in six stages the rates of the tax imposed upon certain low income persons, providing for refunds of excess taxes paid, and directing the Revenue Department to prepare forms for use by eligible taxpayers seeking such refunds; all under certain terms and conditions.

PRESENT:

- COUNCIL PRESIDENT ANNA C. VERNA
- COUNCILWOMAN JANNIE BLACKWELL
- COUNCILWOMAN BLONDELL REYNOLDS BROWN
- COUNCILMAN DAVID COHEN
- COUNCILMAN JAMES F. KENNEY
- COUNCILMAN FRANK RIZZO
- COUNCILMAN FRANK DI CICCO
- COUNCILMAN MICHAEL A. NUTTER
- COUNCILWOMAN MARIAN B. TASCO

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2 P R O C E E D I N G S

3 - - -

4 COUNCIL PRESIDENT VERNA: Good
5 afternoon, everyone.

6 This is a public hearing of the
7 Committee of the Whole, regarding Bill
8 Number 040397.

9 I would ask Miss Ortiz to please
10 read the title of that bill.

11 MS. ORTIZ: An ordinance amending
12 Chapter 19-500 of The Philadelphia Code,
13 entitled "Wage and Net Profits Tax," by
14 decreasing in six stages the rates of the
15 tax imposed upon certain low income
16 persons, providing for refunds of excess
17 taxes paid, and directing the Revenue
18 Department to prepare forms for use by
19 eligible taxpayers seeking such refunds,
20 all under certain terms and conditions.

21 COUNCIL PRESIDENT VERNA: Thank you.

22 Our first witness is Nancy
23 Kammerdeiner, the Revenue Commissioner.

24 Did you submit written testimony,
25 Commissioner?

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2 MS. KAMMERDEINER: I believe it was
3 submitted on Monday. We thought it was
4 originally scheduled --

5 COUNCIL PRESIDENT VERNA: I'm sorry.
6 I do have it.

7 MS. KAMMERDEINER: Okay. Good. I
8 hadn't done it personally, so I wasn't
9 positive.

10 COUNCIL PRESIDENT VERNA: Okay.

11 MS. KAMMERDEINER: Good afternoon,
12 Councilwoman Verna, and members of the
13 Committee of the Whole.

14 My name is Nancy Kammerdeiner, and
15 I'm the Revenue Commissioner.

16 I'm pleased to be with you today to
17 present testimony regarding Bill Number
18 040397. This ordinance will amend section
19 19-1500 of The Philadelphia Code.

20 COUNCIL PRESIDENT VERNA: Excuse me.
21 I'm sorry. Could you pull the microphone a
22 little closer to you.

23 MS. KAMMERDEINER: I'm sorry. I
24 thought I had it close enough.

25 COUNCILMAN COHEN: If you use this

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2 microphone, I can hear better those
3 witnesses that are on this side, rather
4 than on that side.

5 COUNCIL PRESIDENT VERNA: That's
6 fine.

7 COUNCILMAN COHEN: And since I don't
8 see any Council members on that side, and
9 there are two on this side, I would suggest
10 emphasis on this side.

11 MS. KAMMERDEINER: True. Be happy
12 to accommodate.

13 I believe you have my written
14 testimony, so I won't read the entire
15 testimony. I'll try and hit a few
16 highlights on that.

17 COUNCIL PRESIDENT VERNA: Excuse me.
18 The stenographer will have a copy of your
19 written testimony.

20 MS. KAMMERDEINER: Yes. Thank you.

21 COUNCIL PRESIDENT VERNA: And it
22 will be transcribed in full. Thank you.

23 MS. KAMMERDEINER: Thank you.

24 Chief of Staff Joyce Wilkerson and
25 other members of the Administration have

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2 recently appeared before you the to discuss
3 the Administration's plans for responsible
4 tax reduction and reform. And you have her
5 testimony, as well as a few comments here
6 in mine, that recaps a number of those key
7 points.

8 I think the main thing here is that
9 there are a number of things that need to
10 be dealt with to close gaps in the current
11 budget before we consider expending
12 additional funds or actually reducing
13 income in the form of revenue.

14 The ordinance before you is a
15 well-intentioned effort to apply the
16 concept and guidelines of the state's
17 successful personal income tax, tax back,
18 tax forgiveness program to our wage tax.

19 The ordinance would phase in
20 provisions similar to those in the state
21 program, by gradually reducing the wage tax
22 rate for low income Philadelphia workers,
23 and providing refunds beginning in fiscal
24 year '07, following a filed request by
25 the -- for a refund by the eligible

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2 taxpayer.

3 The Department of Revenue estimates
4 that the proposed ordinance would cost the
5 City \$81.7 million during the life of the
6 fiscal '05 to 09 plan and \$215.6 million
7 over the first five-year period that the
8 City would be required to provide refunds.
9 The estimated annual cost --

10 COUNCIL PRESIDENT VERNA: I'm sorry.
11 What was that figure for the refunds?

12 MS. KAMMERDEINER: It would be
13 \$215.6 million over the first five-year
14 period. And it was \$81.7 million for this
15 particular five-year plan.

16 The estimated annual cost, once the
17 program is fully phased in, is at least
18 \$75.8 million. However, I would caution
19 you about this because our analysis is
20 based on information from the Pennsylvania
21 Department of Revenue for the 2001 tax
22 year.

23 That's the most recent data that we
24 have in detail for the program. But we do
25 know that the state has expanded

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2 eligibility for the program in 2002 and
3 2004, by increasing the value of dependent
4 exemptions by over ten percent.

5 As a result, more Philadelphians are
6 now eligible to participate in the state
7 program, and would therefore be eligible to
8 participate in the wage tax reduction
9 program, since it would have the same
10 eligibility criteria.

11 This means that the cost to the City
12 of this proposed legislation is likely to
13 be several million dollars per year higher
14 than the estimate that we were able to
15 produce using the 2001 data.

16 The Administration maintains the
17 position that strategic investments in tax
18 reductions are necessary, but they must
19 also be affordable.

20 Degradation of the very core
21 services that low income citizens rely upon
22 every day would offset the economic
23 benefits of tax reductions.

24 The tax reductions included in the
25 proposed five-year plan provide an

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2 investment in our future, while protecting
3 our services and fiscal health.

4 The cost of any cost tax reductions
5 beyond those in the proposed plan must be
6 paid for with offsetting revenue increases
7 or expenditure reductions.

8 We need to put the cost of this
9 particular ordinance into perspective. The
10 process of right-sizing recreation
11 facilities and cutting a fraction of the
12 Recreation Department's '05 budget has been
13 a difficult one.

14 Just imagine what finding ways to
15 compensate for the estimated full annual
16 cost of the proposed ordinance, which is
17 \$75.8 million, would be when, that amount
18 is greater than the projected FY '09
19 budgets of the entire Free Library system
20 and the Recreation Department combined.

21 We would not be able to find
22 expenditure reductions of that magnitude
23 without serious disruption in service
24 throughout City government. And it is for
25 this reason that we cannot support this

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2 bill.

3 This concludes my testimony, and

4 I'll be happy to answer any questions.

5 COUNCIL PRESIDENT VERNA: Thank you.

6 Are there any questions from members

7 of the Committee? Of course, Councilman

8 Cohen.

9 COUNCILMAN COHEN: Have I been

10 recognized?

11 COUNCIL PRESIDENT VERNA: Councilman

12 Cohen.

13 COUNCILMAN COHEN: Thank you.

14 Commissioner, let's assume for a

15 moment that the City had been found to have

16 been stealing money from somebody. Would

17 you say that stealing ought to continue

18 because the money is needed, and we can't

19 stop taking it improperly? Or would you

20 feel that justice would require that

21 something happen?

22 MS. KAMMERDEINER: If someone were

23 in violation of the law, I would certainly

24 want to have that law enforced. And

25 stealing is a violation of the law.

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2 COUNCILMAN COHEN: And you would
3 agree that the practice should be stopped.

4 MS. KAMMERDEINER: If someone is
5 violating the law, yes.

6 COUNCILMAN COHEN: Yes.

7 But you don't think that fairness
8 and equity in taxation means anything, and
9 that if it's been found that a policy is
10 unfair to groups of people over a long
11 period of time; and money is therefore, at
12 least in the mind of people who study
13 fairness in taxes, been wrongfully taken
14 from them, you say, well, it's got to
15 continue; we are now depending on the
16 wrongful taxation.

17 MS. KAMMERDEINER: I'm not
18 addressing this as an issue of fairness or
19 unfairness. I'm addressing this as an
20 issue of affordability.

21 COUNCILMAN COHEN: Well, don't you
22 think that you have to deal with justice
23 and fairness in your position?

24 You have a good reputation. I'm
25 sure you couldn't have gotten that if

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2 questions of fairness were not involved.

3 MS. KAMMERDEINER: I appreciate the
4 compliment. I think try to fairly enforce
5 the law as the law exists.

6 COUNCILMAN COHEN: Well, do you
7 think there's anything fair about what's
8 been called one of the most regressive
9 taxes that exists in the United States, and
10 that's the City's wage tax, because the
11 rich pay the same level that the poorest
12 person earning a dollar a year would pay.

13 MS. KAMMERDEINER: I can appreciate
14 your concern, but from my perspective, I'm
15 going to enforce the law. I'm Looking at
16 this in terms of what the law is, and
17 fairly enforcing an existing law.

18 It's your determination here from
19 City Council, and with the Mayor, in terms
20 of what that law should look like. And my
21 comments here are based on whether or not
22 this particular legislation would be
23 affordable at this point in time.

24 COUNCILMAN COHEN: Well, is it ever
25 affordable to do something wrong, whether

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2 it's a law or an ethical principle?

3 People quarrel whether something is
4 technically a legal violation or whether
5 it's an ethical one, or whether it's just a
6 moral, unfair thing to do.

7 Don't you think a government
8 official, to whom is charged the quality of
9 the life in the City, has a responsibility
10 for the level of the quality of life?

11 MS. KAMMERDEINER: That is one of
12 the things I'm concerned about, in terms of
13 providing advice about what the cost would
14 be of this legislation.

15 It's then up to others to indicate
16 whether or not we can afford that cost or
17 what we would forego if we would actually
18 enact this legislation as a City
19 government.

20 COUNCILMAN COHEN: See,
21 Commissioner, I think it's everybody's
22 responsibility, whatever level they work in
23 government, to make sure that as a result
24 of their being employed and representing
25 the government they're helping to improve

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2 the life of Philadelphians.

3 And I submit to you I would believe
4 it would be well within your duties to say
5 this is a very unfair tax.

6 This is what, for example, Democrats
7 have been railing against, per the
8 president's tax cut on the income tax,
9 because rich people and poor people receive
10 the same benefits.

11 And that's what this tax is about
12 here. Poor people pay the same dollar
13 amount. And to a woman who's the sole
14 parent of a child, every dollar counts; but
15 you know, to an affluent person and
16 certainly to a rich person, a dollar may
17 mean nothing.

18 Therefore, we've understood that
19 progressive taxation bears relevance to the
20 amount of money somebody owns or earns, and
21 the tax is to be fair or not equal.

22 They're called regressive taxes.
23 That's why there's so much feeling against
24 sales taxes because they hit the rich and
25 the poor the same amount in dollars but

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2 vastly different with respect to their
3 impact on life.

4 And therefore, I believe that now
5 that people understand the unfairness of
6 this wage tax, everything has to be done
7 first to get rid of that unfairness, and to
8 treat those poor, lower income people,
9 working people who are getting no benefits
10 from working, because many cases when they
11 leave welfare and begin working, they
12 actually lose rights, because they lose the
13 medical powers they get under relief, and
14 other assistance that welfare offers. They
15 go out to work, and they find that they're
16 less able to even help their families than
17 they were before.

18 Now, there's something wrong with
19 that tax system that does that, isn't
20 there?

21 And you're saying that as a tax
22 official, all you're interested is in
23 pouring the money in; you don't really care
24 how it comes along because Council has
25 enacted a law. You're going to let the

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2 Mayor and the Council worry about fairness.

3 MS. KAMMERDEINER: Well, I'm
4 concerned about whether there are enough
5 funds coming in to cover the services that
6 will actually go to support some of the
7 concerns and interests of many of those
8 same people.

9 If we don't have the fund coming in
10 to provide --

11 COUNCILMAN COHEN: Well, I --

12 MS. KAMMERDEINER: -- services,
13 library services, trash pick-up, a lot of
14 the things that benefit these very people,
15 there are other issues that will come to
16 play and they won't have the services that
17 they need.

18 COUNCILMAN COHEN: Why is it --

19 MS. KAMMERDEINER: And from a policy
20 perspective, that a determination needs to
21 be made about which is going to take
22 precedence.

23 COUNCILMAN COHEN: Why should you
24 conclude that because there's less income
25 we have to cut services of poor people?

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2 Why don't we think in terms of economics?
3 Do you think maybe of raising taxes of the
4 wealthier or of maybe cutting certain
5 services that the wealthy people get.

6 MS. KAMMERDEINER: Those are other
7 alternatives that can be considered. And
8 I'm trying to lay out for you and other
9 members of Council what the cost would be
10 of this, in terms of reduced revenue.

11 There are other ways of balancing,
12 but if we did this without making other
13 cuts or addressing other revenues that
14 would need to increase, this --

15 COUNCILMAN COHEN: Shouldn't Council
16 and the Mayor be putting their attention on
17 that? If the cuts have to be made, should
18 the cuts be not for the services that poor
19 people need or low income people, but that
20 people have the money to provide
21 themselves?

22 MS. KAMMERDEINER: That's the
23 decision that needs to be made from a
24 policy perspective, yes.

25 COUNCILMAN COHEN: All right.

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2 Thank you.

3 COUNCIL PRESIDENT VERNA: You're
4 welcome.

5 Are there any other questions of the
6 Commissioner?

7 (No response.)

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

10 MS. KAMMERDEINER: Thank you.

11 COUNCIL PRESIDENT VERNA: Our next
12 witness.

13 MS. ORTIZ: Our next witness is
14 Steve Herzenberg. Doctor. I'm sorry.
15 Apologize.

16 COUNCIL PRESIDENT VERNA: Good
17 afternoon. Please identify yourself for
18 the record and proceed with your testimony.

19 DR. HERZENBERG: I'm Stephen
20 Herzenberg, Director of the Keystone
21 Research Center.

22 I appreciate very much the
23 opportunity to testify before Council here
24 today on the question of Bill Number
25 040397.

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2 The Keystone Research Center is a
3 Pennsylvania based nonprofit, non-partisan,
4 economic and public policy organization.

5 I have a Ph.D. in economics from
6 M.I.T. and have spent part of the last
7 eight years analyzing Pennsylvania's state
8 and local tax system, as part of the work
9 of the Keystone Research Center.

10 COUNCILMAN COHEN: Most of the work
11 that Keystone does, including on tax policy
12 is online at www.keystoneresearch.org.

13 Before getting into the specifics of
14 the bill in question, I want to make a
15 couple of remarks about the background to
16 the comments that I'll make about the bill.

17 The first is that when Keystone
18 considers tax policy, it does so based on a
19 set of values and principles. One of those
20 tax principles that's particularly relevant
21 today is vertical equity. That is, in
22 general, tax rates should rise with ability
23 to pay.

24 Another dimension of Keystone's tax
25 research is that tax policy has to be used

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2 to help communities, regions, and the state
3 as a whole cope with whatever the
4 particular challenges, social and economic,
5 that they face at this point in history.

6 So right now in Philadelphia, in the
7 whole metro area, in Pennsylvania, in the
8 U.S., one central challenge is the rise of
9 wage inequality, and the rise of family
10 income inequality.

11 That historical reality means that
12 vertical equity, a long-standing tax
13 principle, is more important now than ever.

14 Another dimension of the specific
15 challenge that the City of Philadelphia
16 faces today is sprawl, that is, the outward
17 movement of people and jobs away from older
18 communities, including the City of
19 Philadelphia, which has consequences like
20 community breakdown, the erosion of
21 regional competitiveness, and the
22 concentration of poverty in older
23 communities like the City of Philadelphia.

24 COUNCILMAN COHEN: Point of
25 information.

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2 MR. HERZENBERG: Sure.

3 COUNCILMAN COHEN: I missed two
4 words I think you used after you said, in
5 considering generally you were concerned if
6 you find a rise of... And I didn't get the
7 rest of it.

8 MR. HERZENBERG: Okay. Inequality.

9 So, the bottom line is that if you
10 look at trends in wages in the last 25
11 years, what you find in Philadelphia, in
12 Pennsylvania, and the nation is that wages
13 have been rising much more rapidly at the
14 top than in the middle, and have been
15 rising even more slowly at the bottom.

16 Another related aspect of that is
17 when you look at family income inequality.
18 So, for example, if you look at the
19 economic pie and how much that economic pie
20 has increased in the past 25 years, what
21 you'll find is that the lion's share of the
22 increase in the pie has gone to the most
23 affluent folks. That reflects what's going
24 on in our --

25 COUNCILMAN COHEN: The most what

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2 folks?

3 MR. HERZENBERG: The most affluent,
4 the richest folks.

5 So, tax policy today takes place in
6 a situation where we're growing apart
7 economically.

8 So, what that means is that the
9 traditional use of tax policy to achieve
10 better equity after taxes than before
11 taxes -- Taxes are used, among other
12 things, as a vehicle for redistribution.

13 And what I'm saying is that because
14 we have been growing apart as a City, and
15 as a state, and as a country, what that
16 means is that the use of tax policy to
17 counteract, you know, the rise of
18 inequality is more important than ever.
19 That was just my first starting point.

20 The second starting point, in terms
21 of the challenge for Philadelphia is,
22 again, this issue of older communities
23 being in decline.

24 When you understand that problem,
25 what it means is that older communities,

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2 including the City of Philadelphia, cannot
3 reverse their loss of population and tax
4 base on their own.

5 So to the extent that you think
6 about tax policy, to the extent that the
7 City Council thinks about tax policy in a
8 very narrow box, what should the City of
9 Philadelphia do on its own?

10 It's going to be confronting a
11 series of very difficult choices. The
12 question -- When you don't raise the debate
13 above the level of the City, then you're
14 faced with choices like, where do we want
15 to be on a spectrum where taxes are too
16 high and services are too low.

17 It's only when you can over time
18 shift the debate to regional tax policy
19 and to state tax policy. That gives City
20 of Philadelphia and other older communities
21 the opportunity to put in place policies
22 that really will fully restore community
23 well-being in the City.

24 So, part of the reason for saying
25 that is that if Philadelphia operates based

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2 on the presumption that if it will just cut
3 taxes and rely on the magic of the market
4 and supply side economics, to bring people
5 and tax base into the City, that's an
6 illusion.

7 That kind of solution is not going
8 to happen with the City of Philadelphia
9 using its own tax policies as an
10 instrument. So... And that's an important
11 part of the backdrop because --

12 COUNCILMAN COHEN: Can you tell us
13 why?

14 MR. HERZENBERG: Why it's not?

15 COUNCILMAN COHEN: Why doesn't it
16 work for the City, if it works for the
17 state and Federal Government?

18 THE WITNESS: Well, it... The whole
19 combination of forces that have been well
20 documented, for example, for all
21 Pennsylvania older communities in the
22 Brookings Institution report that was done
23 at the end of last year called Back to
24 Prosperity, what that report lays out is a
25 whole range of education funding, land use,

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2 tax and economic policies, that all
3 contribute to older communities in
4 Pennsylvania, not just the City of
5 Philadelphia, losing people. And we're
6 losing tax base.

7 So the bottom line of that report is
8 that if you really want to reverse those
9 tendencies, you need a systemic solution.

10 You need a solution in which folks
11 within older community but also within
12 whole regions, and in the state as a whole,
13 come together with a set of responses that
14 are equal to the pressures bearing down on
15 older communities.

16 Now, again, for me in this
17 discussion of targeted tax relief today,
18 that has a couple of implications. One is
19 that a real challenge for the City Council
20 and other leaders in Philadelphia is how
21 can you get at the front of the train
22 that's trying to start this movement to
23 renew all older communities in
24 Pennsylvania, that that policy action is
25 very, very important to the City of

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2 Philadelphia.

3 But the other implication is to say
4 that debates about tax policy, and the wage
5 tax in particular, should not take place
6 based on the false assumption that if we,
7 for example, just cut the across-the-board
8 wage tax enough, magically the whole City
9 will rebound. That's just a false
10 assumption.

11 And that false assumption, I think,
12 is part of what -- is one of the reasons
13 that people, when they think about tax
14 relief, don't want to do targeted tax
15 relief. They want to do across-the-board
16 tax relief because they want these magical
17 supply effects to bring the City back.

18 And what I'm saying is that way of
19 thinking is operating based on a false
20 premise. And so, when you abandon that
21 false premise and revisit the issue of
22 equity, with respect to the wage tax, you
23 come, at least in my view, to a different
24 conclusion which is that the targeted tax
25 relief, you know, is something that makes

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2 sense for the City of Philadelphia, and
3 that based on values, including equity,
4 that's something that the City should
5 adopt.

6 Now, with that as backdrop, what I'm
7 going to do in the next part of my remarks
8 is summarize some analysis that is detailed
9 in two briefing papers on targeted tax
10 relief that is a -- that are available
11 along with my testimony.

12 So the first of those briefing
13 papers walks through the numbers, the
14 equity case for wage tax forgiveness.

15 There the evidence is marshaled that
16 the City of Philadelphia and low income
17 people in the City of Philadelphia
18 desperately need targeted tax relief.

19 So, the core of that case is based
20 on facts such as 43 percent of
21 Philadelphians have incomes below 200
22 percent of the poverty line, according to
23 the 2000 census. It's that group that
24 would benefit from targeted tax relief.

25 Second, taking into account all

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2 state and local tax -- state and local
3 taxes, the tax rate on a Philadelphia
4 family of two adults and two school age
5 children with an income of \$25,000 --
6 that's a low income family -- that tax rate
7 is over 11 percent.

8 That's the fourth highest out of a
9 group of 51 cities examined in a recent
10 comparison of the largest city in every
11 state, plus the District of Columbia. The
12 fourth highest tax rate on a low income
13 family is in the City of Philadelphia.

14 Third, the state and local tax rate
15 in Philadelphia is 1.5 times the tax rate
16 on low income families in the group of 51
17 cities as a whole.

18 In contrast, the tax rate for a high
19 income family in Philadelphia is only 1.28
20 times the average for the 51 cities.

21 So the reality is, Philadelphia is a
22 high-taxed state, by comparison with these
23 other cities. But taxes are substantially
24 higher for low income families in
25 Philadelphia, relative to low income

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2 families in other cities, substantially
3 higher than the relative tax rate for high
4 income families.

5 In fact, measured by that ratio, the
6 tax rate on the bottom to the tax rate on
7 the top, Philadelphia has the 15th most
8 regressive state and local tax system out
9 of that group of 51.

10 And then the final point is the
11 targeted tax relief that would be phased in
12 using the provisions of Bill 040397, it
13 would make Philadelphia's tax rates more
14 equitable, relative to other cities, but it
15 is a very modest proposal.

16 The end of the bill being fully
17 phased in, Philadelphia's tax rates on low
18 income families would remain above the
19 average for that group of 51 cities. So,
20 from our perspective... And again, all the
21 details of those calculations I just
22 summarized, are in that briefing paper
23 number one.

24 But from our perspective, when you
25 look at all that evidence, the case for

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2 targeted tax relief -- if you're going to
3 do tax relief, do targeted tax relief -- is
4 compelling on equity grounds.

5 The second briefing paper takes a
6 look at a second benefit of targeted tax
7 relief. And that is the way that it would
8 boost consumer demand in the City of
9 Philadelphia and would boost neighborhood
10 economies.

11 So, again, for the details, go to
12 that second briefing paper. But here's the
13 essence of the argument. There are four
14 basic factors that drive the conclusion
15 that targeted tax relief stimulates the
16 City economy more than across-the-board tax
17 relief.

18 The first is the targeted tax
19 relief, more of that money goes to people
20 in the City. That's because eligibility
21 for targeted tax relief is based on how
22 affluent you are, and there's more lower
23 income in the City than among the commuters
24 that come into the City.

25 The second factor is that when you

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2 do across-the-board tax relief, that means
3 that higher income taxpayers, when it comes
4 to itemizing their deductions, are putting
5 down a smaller number for their City wage
6 tax that comes off their Federally taxable
7 income.

8 Because of that effect, 20 percent,
9 an estimated 20 percent, of broad based
10 wage tax release just goes straight to the
11 Feds. With targeted tax relief,
12 essentially none of it leaks out to the
13 Feds.

14 The third factor is that lower
15 income residents spend almost all of the
16 tax relief they get; so, whereas, higher
17 income residents are more likely to save
18 part of what they get.

19 So... And then the last factor is
20 where people spend the money they get.
21 Lower income residents are likely to spend
22 a higher share of what they spend in the
23 City. They're not going on vacation and
24 trips or out on business out of the City,
25 as much as higher income folks.

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2 So, when you put those four factors
3 together... And again, you can look at my
4 testimony for a summary, and you can look
5 at the briefing paper for the details.

6 But the bottom line is, when you
7 follow through those four effects, it means
8 that a dollar of targeted tax relief leads
9 to 66 cents spent in the City; whereas, a
10 dollar of across-the-board tax relief leads
11 to only spending a quarter, that is, 25
12 cents in the City.

13 So, in terms of the short-term
14 impact on consumer demand, the short-term
15 impact of the same dollar amount of tax
16 relief is 2.6 times greater, with targeted
17 tax relief.

18 The next part of my testimony
19 addresses the debates about the benefits,
20 the long-term benefits, supply side
21 benefits of across-the-board tax relief.

22 And there has been a fairly extended
23 back and forth, with a couple of rounds of
24 back and forth, between the Keystone
25 Research Center and E-Consult, first in the

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2 context of the Tax Reform Commission
3 deliberations and now here today.

4 So, I'm not going to try to dive
5 into the technical details of that. I'm
6 going to suggest that folks look at the
7 testimony, and then this will be written up
8 as a third briefing paper.

9 But let me try to explain the core
10 common sense issues. The first and perhaps
11 most critical issue is that the models that
12 have been used to estimate how much
13 overtime cuts in the wage, the overall wage
14 tax would increase the tax base because
15 more people end up in the City, those
16 models leave out many of the important
17 factors that actually drive whether or not
18 people come into or leave the City.

19 Any, I think, lay person with a lot
20 of knowledge of the City of Philadelphia
21 knows that the tax base in the City is
22 influence by a range of different
23 variables.

24 Taxes are part of the story, but so
25 are schools and the quality of schools. So

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2 are the quality of other services. So are
3 crime rates. So are issues like race.

4 And so, another factor is the extent
5 to which the Federal and state government
6 provide support to the City of
7 Philadelphia.

8 So a full model of the tax base in
9 the City of Philadelphia, which is
10 intending to estimate, well, how important
11 are tax rates, has to take into account
12 these other factors.

13 If you leave those out of the
14 equation, then what happens, potentially,
15 is that the coefficients, the numbers that
16 come out of the estimate that tell you,
17 well, how important are tax rates to the
18 flow of people in and out of the City or to
19 the tax base long term, those estimates get
20 distorted.

21 And in practice in this case they
22 probably get inflated, so you get an
23 exaggerated estimate of the impact of wage
24 tax cuts, in terms of across-the-board wage
25 tax cuts, in terms of stabilizing or

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2 growing the City's tax base. And that's
3 the bottom line.

4 Now, the Tax Reform Commission made
5 some comments in its report, based on
6 testimony to this effect, that I presented
7 before the Tax Reform Commission.

8 As laid out here in my written
9 testimony, our basic view is that those
10 responses are simply not convincing.

11 One of the fundamental problems here
12 is really the process by which the tax
13 analysis has been done. You can go back to
14 the Economy League which hired E-Consult to
15 do some tax analysis about three years ago.

16 In building a network, the Tax
17 Reform Commission hired E-Consult, and now
18 the City Council has hired E-Consult.

19 And if you look at that process, at
20 least from the outside, what it looks like
21 is you have a situation in which a group of
22 folks that favor across-the-board tax
23 relief have hired a tax consultant that
24 knows what the client favors.

25 And so, from the outside you can't

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2 tell... you have no confidence that what's
3 really going on is an objective analysis.

4 The concern is that what's happening
5 is that numbers are being generated to
6 support a preconceived view.

7 Now, in our view, there is in fact a
8 model of a different kind of process of
9 thinking through tax policy, that is more
10 transparent and balanced and open.

11 And that's actually -- That model is
12 something that Keystone participated in, in
13 terms of analyzing state tax policy. We
14 were part of a business/labor tax policy
15 call PA21 over the past year or so.

16 That project was jointly sponsored
17 by the Business Roundtable, the Allegheny
18 Conference, the largest business
19 organization in Southwest Pennsylvania, the
20 Pennsylvania AFL-CIO, and the Pennsylvania
21 State Education Association.

22 And the technical team on that
23 project included Keystone, included Ernst &
24 Young, the accounting firm and consulting
25 firm. Most of the clients they deal with

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2 usually are large companies that are
3 looking to minimize their taxes, and then
4 the Pennsylvania Economy League.

5 That project produced a very careful
6 and balanced report which is available on
7 our web site, as well as on lots of other
8 places.

9 And folks who read that report can
10 have confidence that when something is said
11 about what we know from research on taxes,
12 that... vetted by us, vetted by that whole
13 technical team, that there's a strong
14 statement made about taxes and them having
15 a certain impact. You can be confident
16 it's true.

17 You will also find in that report a
18 lot of very careful language, recognizing
19 that in lots of cases, for example, in
20 terms of how much investment response to
21 cuts in business taxes. There are lots of
22 cases where we don't know very much.

23 That process hasn't happened in the
24 debate about Philadelphia's taxes in
25 general or its wage taxes in particular.

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2 And we would be quite happy to be
3 part of a process that attempts to achieve
4 a more balanced and credible and
5 transparent analysis of the City taxes,
6 including the wage tax.

7 Okay. The bottom line here.
8 There's a table at the end of my written
9 testimony that says, based on what we know
10 now, that when you compare targeted tax
11 relief with across-the-board tax relief, we
12 think that the evidence comes down in favor
13 of targeted tax relief.

14 And just to summarize those key pros
15 and cons, with targeted tax relief, the tax
16 relief goes to the people who need it most,
17 the people below a family self-sufficiency
18 standard as commonly defined, which is
19 about 200 percent of the poverty line.

20 If you look at across-the-board tax
21 relief, only 12 cents on the dollar goes to
22 people who need it most. If you look at
23 the demand impact, again, 64 cents on the
24 dollar with targeted tax relief creates
25 demand in the City. Only 25 cents on the

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2 dollar of across-the-board tax relief
3 creates demand in the City.

4 And then the last issue, the issue
5 in a sense on which proponents of
6 across-the-board tax relief have staked
7 everything, that's the long-run impact on
8 the City tax base, the fact is, based on
9 the models that are out there now, we don't
10 really know how responsive across-the-board
11 tax -- how responsive -- sorry -- the tax
12 base and the movement of people would be to
13 across-the-board tax relief, nor do we
14 know, to be fair, what the impact on
15 population movements would be of targeted
16 tax relief.

17 There is one dynamic that might be
18 important, is that tax forgiveness actually
19 ends up benefiting a lot of middle and even
20 upper income seniors.

21 The reason for that is because those
22 folks, their pension income and investment
23 income, is not taxed under the wage tax.
24 So as long as their wages are below the
25 income tax forgiveness thresholds, they

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2 qualify for targeted tax relief.

3 What that means is that targeted tax
4 relief might well reinforce the movement of
5 empty-nesters back into the City.

6 So that balances against whatever
7 long-run dynamic benefits would result from
8 across-the-board tax relief.

9 You know, it's also worth keeping in
10 mind that the amount of money -- Our
11 estimate is that you could fund -- The
12 amount of money it costs to do targeted tax
13 relief is on the order of magnitude would
14 cost the same as about a two-tenths of one
15 percent cut in across-the-board wage tax
16 relief. That amounts to \$200 for somebody
17 who makes \$100,000.

18 Now, it may be that movements of mid
19 and upper income people into and out of the
20 City of Philadelphia are sensitive to
21 amounts like \$200. Personally, I suspect
22 they're not very sensitive to amounts like
23 that.

24 So, to end with a comment that links
25 back to where I started, we think that the

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2 evidence we've marshaled suggests that if
3 you're going to do tax relief, that
4 targeted tax relief, as laid out in this
5 bill, should be the first priority.

6 We also think that, in terms of
7 improving the options that the City faces
8 long-term, in terms of a balance between
9 taxes and services, and in terms of
10 promoting community well-being more
11 generally, the challenge there is for the
12 Council and other leaders in the City to be
13 at the front of the train, in terms of the
14 Renew Pennsylvania Movement, the Renewal
15 Older Communities Movement.

16 Keystone would be thrilled to be a
17 partner with City Council, in terms of a
18 deeper analysis of all of the forces that
19 are bearing down on the City and other
20 older communities, but the City in
21 particular.

22 And also, we'd be thrilled to be
23 part of a creative discussion of the
24 innovative kind of policy responses at the
25 City, region and state level, that could

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2 really get the City back to a situation
3 where taxes are at an affordable level, and
4 in addition, the City has the kind of
5 services it needs for a vibrant community
6 and the high quality of life.

7 Thank you very much.

8 COUNCILWOMAN BLACKWELL: Thank you
9 very much.

10 Are there further questions?
11 Councilman Cohen.

12 COUNCILMAN COHEN: Thank you, Madam
13 Chair.

14 In view of the differences between
15 economic theorists as to the impact of an
16 overall across-the-board tax cut and
17 targeted tax cuts, how do you propose that
18 that be dealt with by government officials?

19 What would be the standard that
20 government officials, do you think, ought
21 to concern themselves with?

22 MR. HERZENBERG: Well, again, our
23 starting point is that on equity grounds,
24 the kind of structural reform that's
25 represented by this bill should happen

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2 today.

3 There's just no excuse, at a time
4 when inequality is growing and when so many
5 families are struggling to get by, there's
6 just no excuse for the City of Philadelphia
7 to have a tax rate on low income families
8 that's substantially higher, relative to
9 other communities, than the tax rate for
10 people generally.

11 So I think the hard question for
12 Council -- I mean, there is -- You know,
13 it's a question of phase-in. You know, how
14 quickly can you get to a point where you
15 are... the state tax forgiveness program,
16 which is the ultimate goal of this bill.

17 And I think there's -- You know,
18 obviously that's a decision that's in the
19 hand of the Council. And to some extent
20 that can be fine-tuned based on the revenue
21 realities in the years ahead.

22 But one example I would point to
23 which would lead me to think that the
24 Council could confidently put in place this
25 bill, is at the state level the business

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2 community successfully lobbied some half a
3 dozen years ago for a phase-out of
4 something called the Capital Stock and
5 Franchise Tax. They put in place a very
6 long phase-out because the phase-out of
7 that tax has a big revenue impact.

8 What they've done since then, very
9 sensibly, is based on the immediate revenue
10 picture the state faces, they've slowed
11 that down several times, you know.

12 But what they did, and the business
13 community wanted, and the business
14 community got was on the books eventually,
15 as revenues permitted, we are getting rid
16 of this tax because Pennsylvania is one of
17 only a few states that has both this tax
18 and a very high corporate income tax, et
19 cetera, et cetera. So they put in place
20 the structural reform.

21 And the legislators didn't give up
22 the right to, again, play with the
23 phase-in, based on what's affordable; but
24 they locked in that structural reform that
25 eliminates this tax, is where Pennsylvania

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2 needs to go.

3 Well, my view on the wage tax is
4 sort of analogous. It's like structural
5 reform that locks in wage tax forgiveness
6 is long overdue.

7 You know, if... It's always true
8 that if revenue pictures disappoint, as
9 perhaps they are this year, then you can
10 revisit something like a phase-in.

11 But 20 years from now, a generation
12 from now, this should be fully phased in,
13 and the members of Council who make that
14 possible would rightly be remembered 20
15 years from now, for having done something
16 historic.

17 COUNCILMAN COHEN: Thank you.

18 Thank you, Madam Chair.

19 COUNCILWOMAN BLACKWELL: Thank you
20 very much.

21 Are there further questions for this
22 witness?

23 (No response.)

24 COUNCILMAN COHEN: If possible,
25 perhaps if there's other testimony, it may

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2 be fitting to come back and report on it.
3 For example, I took you to say that
4 if there were questions about affordability
5 at any given time, as long as the main
6 structure was locked in so that things
7 could occur and people agreed the time was
8 ripe for it, that that would be one sound
9 approach.
10 MR. HERZENBERG: Exactly.
11 COUNCILWOMAN BLACKWELL: Our next
12 witness.
13 COUNCILMAN COHEN: Thank you.
14 COUNCILWOMAN BLACKWELL: Thank you,
15 certainly. And thank you for agreeing to
16 stay around.
17 MS. ORTIZ: Next witness is Bettina
18 Pearl.
19 MS. PEARL: Good afternoon, Madam
20 Chair.
21 COUNCILWOMAN BLACKWELL: Thank you
22 for your patience.
23 MS. PEARL: My name is Bettina
24 Pearl, and I am the policy analyst for the
25 Pennsylvania Family Economic

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2 Self-sufficiency Project, an initiative of
3 PathWaysPA.

4 I am here to express the agency's
5 strong support for Bill Number 040397.

6 I want to thank you very much for
7 giving us the opportunity to testify before
8 you today on the importance of wage tax
9 relief for low income families in
10 Philadelphia.

11 With me is Elizabeth Crespo who
12 will, after my remarks, briefly describe
13 the impact of wage tax on her personally.

14 PathWaysPA, a multi-service agency
15 headquartered in Swarthmore, is one of
16 Greater Philadelphia's largest providers of
17 residential and community based services
18 for low income women and children, serving
19 about 2,000 families annually, with a full
20 complement of social services, skills
21 training, education and employment
22 assistance, teen parent support and
23 outreach, and residential services.

24 Through its Family Economic
25 Self-Sufficiency Project, PathWaysPA is the

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2 state coordinating agency for development
3 and publication of the Pennsylvania
4 Self-sufficiency Standard.

5 Since the beginning of the project
6 in 1997, we have produced three editions of
7 the Self-sufficiency Standard for
8 Pennsylvania, which reports how much income
9 is needed for a family of a given
10 composition in a given county to adequately
11 meet its basic needs without public or
12 private assistance.

13 In addition to publishing research
14 on the Self-sufficiency Standard,
15 PathWaysPA publishes tools designed to help
16 individuals and communities establish and
17 attain self-sufficiency goals, and conducts
18 analysis of and advocacy on policy areas
19 that the economic well-being of families
20 and communities.

21 PathWaysPA strongly supports this
22 bill. As we expressed to the Tax Reform
23 Commission, a wage tax exemption for very
24 low income families is warranted on both
25 moral and policy grounds.

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2 Those eligible for a reduction in
3 the wage tax under this bill are earning
4 far below what it takes to make ends meet
5 in Philadelphia.

6 Our latest self-sufficiency research
7 shows, for example, that for single parent
8 with an infant, the self-sufficiency wage
9 is \$30,186 annually.

10 A single parent with an infant and a
11 pre-schooler would have to earn \$39,526
12 annually in order to make ends meet.

13 The self-sufficiency wage for a
14 two-parent, two-child family with an infant
15 and a pre-schooler is \$44,123.

16 The families covered by this wage
17 tax exemption are those making
18 significantly below self-sufficiency wages.

19 Under the bill, a single parent with
20 two children would be eligible for the
21 reduced tax rate, if he or she were earning
22 under \$24,000.

23 A family with two parents and two
24 children would qualify if they earned up to
25 \$31,000.

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2 By enacting this legislation, you
3 would be bringing the wage tax closer in
4 line with the principle that families
5 should be taxed only when they have
6 earnings sufficient to cover their own
7 basic needs.

8 Of course, the lower rate for low
9 wage earners in this bill would have the
10 effect of significantly increasing the
11 adequacy of their wages.

12 For a Philadelphia family with a
13 full-time minimum wage income, for example,
14 which amounts to about \$800 of gross income
15 per month, the wage tax owed would go from
16 about \$36 of that 800 currently, to \$12 of
17 it at its full implementation, a savings
18 under the bill of about \$24 a month.

19 That's a significant amount of money
20 for families at these income levels. It
21 could help pay for additional food the
22 family needs, utility bills, the cost of
23 transportation to and from school or work,
24 child care expenses, or help to reduce a
25 family's debt.

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2 For some families it could mean
3 being able to save assets and begin to move
4 up the economic ladder.

5 Philadelphia's growth ultimately
6 depends on the ability of our lowest income
7 working families to move toward economic
8 self-sufficiency.

9 This deep reduction in the wage tax
10 as proposed for low income workers would
11 enable more Philadelphians to spend more
12 money in their neighborhoods and to
13 contribute to the economic vitality of the
14 City.

15 Imposing the wage tax on low wage
16 earners undermines the principle of making
17 work pay, hurts families struggling to
18 attain self-sufficiency, and keeps money
19 out of the hands of local businesses.

20 In the interest of equity and
21 fairness, and in keeping with the goal of
22 growing Philadelphia's economy, we urge
23 City Council to take a modest step toward
24 easing the financial burden on low wage
25 families, by approving this bill.

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2 Thank you very much.

3 I'd like you now to turn to Ms.
4 Crespo, who has some just brief remarks
5 about her own personal situation, and the
6 impact of the wage tax, and this bill on
7 her situation.

8 COUNCILWOMAN BLACKWELL: Certainly.
9 Certainly. Welcome.

10 MS. CRESPO: Thank you.

11 COUNCILWOMAN BLACKWELL: Please
12 identify yourself for the record.

13 MS. CRESPO: Hi. Good afternoon.
14 My name is Elizabeth Crespo, and I work for
15 a nonprofit organization.

16 I am here today to advocate on
17 behalf of the working families. I'm a
18 single mother myself with five children.

19 And based on the wages that I earn
20 that are basically my gross wages were
21 about, like, \$950, I basically go home with
22 730.

23 And being a single mom with five
24 children, it would basically help with the
25 pass of this bill with food costs, and

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2 allowances for my children, and lunches,
3 and any debts that I have acquired.

4 I am here today because Mrs. Pearl
5 asked me to come and speak on behalf of the
6 working families, to see that it would be
7 very helpful for this bill to be passed.
8 It would help us very much.

9 COUNCILWOMAN BLACKWELL: Thank you
10 very much.

11 Any questions for the witnesses?

12 (No response.)

13 COUNCILWOMAN BLACKWELL: Thank you
14 very much.

15 MS. CRESPO: Thank you very much.

16 COUNCILMAN COHEN: Is Revenue here
17 still?

18 MS. CRESPO: No.

19 COUNCILMAN COHEN: I guess that's
20 the way the City insulates itself from
21 learning about life by not listening to
22 people. I'm sorry she's gone because she
23 expressed her opinion that was not part of
24 her duties, the fairness or the equity.

25 Okay. but I think she might have

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2 been influenced if she heard your two
3 voices, as well as the Keystone expert.

4 MS. PEARL: Thank you. We will try
5 to communicate with her as well. Thank
6 you.

7 MS. CRESPO: Thank you very.

8 COUNCILWOMAN BLACKWELL: Thank you.

9 MS. ORTIZ: Our next witness is
10 Edith Finkelstein, Action Alliance for
11 Senior Citizens.

12 COUNCILWOMAN BLACKWELL: And while
13 Miss Finkelstein is coming forward we would
14 be remiss if we didn't note Stan Shapiro
15 and say a special good afternoon to you.
16 It's great to have you back. See, we fixed
17 the place up for you, Stan.

18 Good afternoon.

19 MS. FINKELSTEIN: Good afternoon.

20 Good afternoon, Councilman Cohen.

21 I'm here on behalf...

22 COUNCILWOMAN BLACKWELL: Please
23 identify yourself first...

24 MS. FINKELSTEIN: Okay.

25 COUNCILWOMAN BLACKWELL: ...Miss

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2 Finkelstein.

3 MS. FINKELSTEIN: My name is Edith
4 Finkelstein. And I'm a board member of the
5 Action Alliance of Senior Citizens of
6 Greater Philadelphia.

7 Esteemed members of City Council,
8 I'm a member of Action Alliance of Senior
9 Citizens, the City's oldest and largest
10 grassroots senior citizen and retiree
11 organization.

12 With over 30 years of fighting to
13 improve retirement living for our senior
14 citizens, Action Alliance has a proud
15 history of achieving results involving our
16 members, to defend their interests and to
17 provide a vehicle for their contribution to
18 the betterment of our communities across
19 the City.

20 I don't have a lot of statistics,
21 like the Keystone Research, but I'm here to
22 offer Action Alliance's thinking on the
23 proposal submitted by Councilman Cohen, and
24 endorsed by other members of Council, to
25 reduce the City Wage Tax on low income

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2 residents of the City.

3 We have something to say about that,
4 but let me first give you a brief
5 background so you can understand where we
6 as senior citizens are coming from.

7 According to the 2000 Census,
8 Philadelphia's home to about 268,000 people
9 over the age of 60. Philadelphians, just
10 like Pennsylvanians, do not move out when
11 they retire. We stay here, aging in place.

12 We are partially lured to stay here
13 because of the wonderful programs that over
14 the years organizations such as ours have
15 been able to win to improve life for people
16 in retirement.

17 Such programs include the
18 Philadelphia Gas Works, 20 percent senior
19 citizen discount, free transportation from
20 SEPTA during off peak hours, the state's
21 drug program PACE and the Medicare
22 overcharge measure that protects seniors
23 from rising health care costs.

24 In Philadelphia a whopping majority
25 of people over 60 years old own their own

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2 home. The exact figure, according to the
3 Philadelphia Corporation for Aging is 78
4 percent, while 22 percent rent.

5 The majority of seniors reside in
6 Northeast Philadelphia, representing 32.5
7 percent of the City's total. West
8 Philadelphia represents almost 14 percent,
9 while South Philadelphia accounts for 10.5
10 percent.

11 The housing stock owned by seniors
12 is deteriorating quite rapidly, with 53
13 percent of seniors living in houses that
14 are more than 60 years old.

15 Poverty among the elderly is acute,
16 with almost one-fifth of all seniors living
17 below the Federal poverty line, and women
18 account for twice the number of people
19 living in poverty.

20 In addition, we are seeing an
21 increasing trend of retired people coming
22 back to work either full-time or part-time,
23 in order to afford basic necessities, such
24 as food and medicine. The total percentage
25 in the work force is 10 percent.

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2 It is with this background that I'm
3 here to express Action Alliance's official
4 stance on this particular tax reform bill
5 now before you for consideration.

6 I am one of those working seniors.
7 I work part-time for the University of
8 Pennsylvania's Annenberg Center as an
9 usher. For the last three paychecks I
10 worked 33.9 hours making \$238.

11 Out of that I pay \$10.63 for the
12 City Wage Tax. It may not sound like a
13 lot, but with the additional Federal and
14 state's taxes added up to \$25.51, leaving
15 my take-home pay at about 200.

16 For thousands of senior citizens
17 like me in Philadelphia, just as much as
18 for single parents with children, a relief
19 on one of those taxes will go a long way in
20 helping us pay for basic necessities, such
21 as food, rent and medicine.

22 We support giving low income working
23 people a break on the wage tax because that
24 will help many people in our City stretch
25 their earnings, including that 10 percent

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2 of seniors who are forced to go back to
3 work, like myself.

4 We believe that Councilman Cohen's
5 bill will also contribute to the local
6 economy. Low income people like me will be
7 able to spend that extra money right here
8 in Philadelphia.

9 I spend all of my money in
10 Philadelphia and will be glad to spend that
11 extra \$10.

12 We urge adoption of this bill.
13 Thank you very much for your time.

14 COUNCILWOMAN BLACKWELL: Thank you
15 very much.

16 And we don't mind if you don't bring
17 figures. We appreciate your wealth of
18 experience and commitment to the seniors.

19 MS. FINKELSTEIN: Thank you.

20 COUNCILWOMAN BLACKWELL: Thank you.

21 Any questions?

22 (No response.)

23 COUNCILWOMAN BLACKWELL: Thank you,
24 Miss Finkelstein.

25 MS. ORTIZ: Our next witness is

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2 Casey Ellis, SEIU Local 36.

3 COUNCILWOMAN BLACKWELL: Good
4 afternoon and welcome.

5 MR. ELLIS: Good afternoon. My name
6 is Casey Ellis. I am the communications
7 coordinator for Service Employees
8 International Union Local 36 here in
9 Philadelphia.

10 On behalf of SEIU Local 36, I wish
11 to thank members of City Council for
12 allowing to us address this session.

13 First let me say that SEIU Local 36
14 believes that straight percentage taxes,
15 whether sales or wage taxes, places the
16 greatest burden on those who can least
17 afford to pay.

18 The City Wage Tax is just such a
19 regressive tax, and SEIU Local 36 supports
20 Bill Number 040397, introduced by
21 Councilman Cohen, which makes the wage tax
22 a little more progressive.

23 The people who make up my union,
24 Service Employees International Union,
25 Local 36, are men and women who clean and

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2 maintain office buildings and museums.
3 They staff residential buildings. They
4 clean City Hall.

5 We have members who work at the
6 Science Center, and are visible out on the
7 street cleaning Center City District,
8 University City District.

9 We have nearly 5,000 hard-working
10 members who live and work in Philadelphia
11 at approximately 200 locations.

12 Because they have a union who fights
13 to win fair wages and decent benefits,
14 thankfully most of our members may not even
15 qualify for the tax relief proposed by
16 Councilman Cohen.

17 But fair wages for janitorial work
18 is not the norm in non-union buildings or
19 the suburbs, where many City residents
20 work.

21 Pay of \$6 to \$6.50 an hour is
22 typical for non-union cleaners. Most
23 cleaners work 20 to 30 hours a week,
24 without overtime, without medical benefits,
25 without paid holidays or vacations.

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2 In other words, the people who
3 service buildings in and around
4 Philadelphia, but who do not have wages
5 regulated by contracts, are working just to
6 maintain a life of poverty.

7 These workers can't afford decent
8 food, clothing and housing for their
9 families. These are not the unemployed or
10 homeless.

11 These are people who work every day,
12 buy goods and services, and whose job is a
13 service to the community. These people
14 carry enough burdens in life. They should
15 not have to carry the added burden of a
16 City wage tax imposed at the full rate.

17 Let me tell you about Ozia Cain.
18 Ozia Cain had a job for decades at Pinkus
19 Brothers Maxwell. Garment workers at
20 Pinkus Brothers created fine men's suits.
21 They made fair union wages, and were able
22 to raise families and strive for the
23 American dream.

24 But as we know, Pinkus Brothers
25 Maxwell, although they tried to stay on,

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2 was one of the last major garment shops to
3 close their operations in Philadelphia.
4 And when they finally pulled the plug,
5 several hundred workers were left jobless.

6 Ozia found a job as a cleaner. She
7 works from 5:00 a.m. to 9:00 a.m. at the
8 Franklin Institute, and then she works from
9 5:00 in the afternoon to 9:00 at night at
10 401 City Avenue.

11 I called Ozia today and asked if
12 she'd be able to come, but she's not well
13 today, and she went to work this morning.
14 She needs to rest so she can go to work
15 this afternoon.

16 Until the union won a modest wage
17 increase at 401 City Avenue, workers there
18 were earning \$6.50 an hour and only getting
19 25 hours work per week. That comes to
20 less -- a little over \$10,000 a year,
21 certainly not enough to raise a family.

22 So you see, being in a union doesn't
23 even guarantee a comfortable middle class
24 lifestyle.

25 Low paid workers don't drive to the

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2 suburbs to buy groceries. They don't
3 travel to Cherry Hill or out to King of
4 Prussia to shop.

5 They shop where they live, and they
6 live in Philadelphia. When they get a tax
7 cut, the extra money gets spent in the
8 City, and that benefits local businesses.

9 The Mayor's Action Center for
10 Business reports every dollar spent locally
11 produces \$10 in economic investment. I
12 don't have the statistics to back this up.
13 This is a report, though, that came from
14 the Mayor's Office.

15 The one half of one percent cut in
16 the City's revenue, when calculated to
17 include the approximately 23 percent of
18 Philadelphians living below the poverty
19 level, could reap \$730 million in economic
20 benefits to blighted neighborhoods.

21 SEIU Local 36 supports Councilman
22 Cohen's bill because it is morally right.
23 It removes some of the tax burden from
24 those who can least afford to pay, and we
25 support the bill because the long run

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2 economic benefit to the City makes a good
3 fiscal policy.

4 We encourage City Council to adopt
5 this bill. Thank you.

6 (Applause.)

7 COUNCILWOMAN BLACKWELL: Thank you
8 very much. Are there any questions?

9 (No response.)

10 COUNCILWOMAN BLACKWELL: Thank you
11 so much.

12 MS. ORTIZ: Our next witness is
13 Jonathan Stein. With him at the table is
14 Juanita Alvarado.

15 COUNCILWOMAN BLACKWELL: Good
16 afternoon.

17 MR. STEIN: Good afternoon,
18 Councilwoman Blackwell, and members of City
19 Council.

20 I come before Council this
21 afternoon, both as a member of the Tax
22 Reform Commission, past member, who was
23 appointed by City Council to the
24 Commission, and who conscientiously put in
25 hundreds of hours of time into Commission

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2 work and deliberations, as well also as
3 General Counsel of Community Legal
4 Services, where we have served tens of
5 thousands of low income City wage
6 taxpayers.

7 One such working taxpayer is Juanita
8 Alvarado, age 63, to my left, who is with
9 me today, who will suffer some of her views
10 after my brief remarks.

11 For a variety of reasons: Policy,
12 fiscal and political, the Tax Commission's
13 broad and costly wage tax cut bill appears
14 struggling to stay afloat.

15 But there is a wage tax bill that
16 all on City Council can support and vote
17 for in the coming days, and that is
18 Councilman Cohen's bill, one which many of
19 you have either co-sponsored or supported
20 in the recent past.

21 The Cohen bill provides for a
22 targeted wage tax cut for those with
23 incomes below \$35,000 a year, which will
24 reduce the wage tax through a delayed
25 implementation, and then a phase-in

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2 beginning only in 2006, effective 2007 to
3 2011.

4 Your vote for this bill will be a
5 welcome clarion call for tax fairness and
6 equity for those who cannot afford to pay
7 this regressive tax.

8 The reasons for supporting
9 Councilman Cohen's bill are more compelling
10 now than ever. And they are as follows:
11 The first is that the targeted Cohen wage
12 tax cut bill largely benefits City
13 residents, in contrast to the Tax
14 Commission wage tax cut bill which is a
15 substantial wage tax cut for suburban
16 residents of New Jersey, Montgomery County,
17 Bucks County and Chester Counties.

18 One of the most important facts
19 about the Tax Commission's large wage tax
20 cut that you won't find prominently
21 advertised there in their report, is that
22 according to the City Revenue Department,
23 almost 40 percent of wage tax revenues
24 comes from non-residents in the suburbs.

25 The blunt meaning of this fact is

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2 that close to 40 percent of the Tax
3 Commission's across-the-board wage tax cut
4 is a significant wage tax cut for suburban
5 residents, suburban residents who work
6 here, who have chosen to move out of the
7 City, out of our public schools, or decided
8 initially to ever live here at all.

9 No one in City Council chambers
10 today represents the interests of those who
11 live across the river in New Jersey or
12 across City Line Avenue in Bryn Mawr or
13 Lower Merion.

14 You have every right to look after
15 your interest of your constituents who are
16 City residents, not those living in the
17 suburbs.

18 This fact gives you a clear choice
19 of supporting the Commission wage tax bill
20 that will send tens of millions of dollars
21 of City revenue dollars out to the suburban
22 residents, the non-residents in the suburbs
23 who will benefit from the Tax Commission
24 wage tax cut bill or you could focus on
25 Councilman Cohen's bill, wage tax cut bill,

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2 which will primarily and largely benefit
3 only City residents, your constituents.

4 The Cohen bill, because it is
5 targeted to lower income and middle class
6 wage earners under incomes of \$35,000 a
7 year, provides substantial tax relief to
8 these City residents because they largely
9 constitute the lower income wage taxpayers
10 who benefit from the bill.

11 A second reason is that the Cohen
12 tax bill will more directly assist local
13 and neighborhood businesses.

14 Economists looking at the economic
15 impact of the Cohen wage tax cut bill,
16 especially in comparison to the Tax
17 Commission's broader urban and suburban
18 wage tax cut proposal, have found two
19 market impacts that show how the Cohen bill
20 is better for local Philadelphia
21 businesses.

22 The first is that lower income
23 residents will spend more to meet pressing
24 immediate needs and save less out of their
25 tax cut relief.

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2 The second is that lower income
3 residents are more likely to spend their
4 tax cut dollars in local businesses,
5 therefore, helping neighborhood economies.

6 The Tax Commission's tax cut bill,
7 because it reaches into the highest of
8 incomes, as well as into the more affluent
9 suburbs, means that more of City revenues
10 given back to taxpayers will be saved or
11 invested in the stock market or spent with
12 businesses located outside the City.

13 This, too, offers those in Council
14 another clear choice. The Cohen bill is
15 simply better for local business.

16 Three, the current wage tax bill is
17 fundamentally about fairness and equity.
18 The preeminent principles of tax fairness
19 is ability to pay a tax. This is not a
20 radical idea imported from Sweden or
21 Berkeley, California.

22 For over two decades conservative
23 and liberal legislators, whether they be
24 presidents or governors in Washington or
25 Harrisburg, have all together agreed that

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2 the working poor and those somewhat above
3 that level should not be paying a tax or a
4 reduced tax on earned income.

5 Those in Council know, more than
6 anyone else in this City, what the costs of
7 poverty are. And they are real costs.
8 They are costs to all areas of government:
9 the criminal justice system, social
10 services, virtually every area of
11 government.

12 And all well know the costs that
13 deprivation of necessities of life have on
14 children's growth and development and
15 well-being.

16 The wage tax simply should not be a
17 factor that contributes to poverty and
18 deprivation among hard pressed families,
19 and it should not be a penalty or a work
20 disincentive for those struggling to make
21 work pay and to get out of poverty through
22 work.

23 There can be no more equitable or
24 fairer step for this City Council to take
25 in tax reform than to adopt the Cohen wage

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2 tax proposal.

3 Fourth, the Cohen targeted wage tax
4 bill is not a budget buster and is fiscally
5 responsible. Councilman Cohen, cognizant
6 of current fiscal and political realities,
7 has postponed implementation of his
8 targeted wage tax cut bill to the year
9 2006, with the first refunds only coming
10 into 2007 three years from now.

11 It's a phased-in bill with refunds
12 of less than \$10 million in the first year,
13 and a total estimated cost, five-year cost,
14 of \$70 million. And these costs can even
15 be lowered, if the eligibility level is
16 adjusted downward.

17 The Tax Commission's wage tax cut
18 and business privilege bill -- tax cut
19 bills would be effective immediately, and
20 would cost over five times this, over \$330
21 million beginning in 2005 for five years,
22 and many hundreds of millions of dollars
23 more in lost revenues if adopted.

24 If one is now concerned about the
25 fiscal impact of tax cutting measures right

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2 now, certainly the Cohen wage tax cut bill
3 becomes a more prudent and preferred
4 alternative.

5 Finally, do you want
6 across-the-board tax reform? Then support
7 Governor Rendell's tax reform measures.

8 Govern Rendell's tax reform plans
9 should substitute for the Tax Reform
10 Commission's wage tax bill.

11 It cannot, though, substitute for
12 Councilman's Cohen's because it does not
13 provide the targeted wage tax relief for
14 lower income workers.

15 But the Rendell plan would lower the
16 overall City wage tax to 3.9 percent, would
17 narrow rates between residents and
18 non-residents, and with no fiscal loss to
19 the City.

20 Across-the-board tax reform of the
21 wage tax does reach into the suburbs, as
22 noted above, where almost 40 percent of the
23 Commission's wage tax cut will be paid to
24 people living in the suburbs.

25 This strongly suggests if you want

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2 across-the-board reform, to have a regional
3 and statewide approach to tax reform where
4 overall wage tax can be adjusted,
5 concurrently with changes in the statewide
6 personal income tax and with other state
7 revenue programs.

8 In conclusion, we should all ask
9 what each of us has done in the past for
10 you to get the Governor's tax reform
11 program passed.

12 If the answer is not much or not
13 enough, let's get together lend our support
14 to the Governor at the same time as we set
15 in motion through passage of Councilman
16 Cohen's bill the future reduction of the
17 wage tax paid by City working residents,
18 who in our hearts we know should not be
19 paying this tax.

20 And as a very final thing before I
21 turn it over to Ms. Alvarado to my left,
22 let me just say, having spent hundreds of
23 hours on the Tax Reform Commission, I don't
24 think the Tax Reform Commission did justice
25 to Councilman Cohen's wage tax proposal.

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2 And I say that because even though
3 they looked at it very late in
4 consideration, almost as an afterthought I
5 have to say, they rejected it on very bogus
6 grounds.

7 The essence of why the Tax
8 Commission rejected the Cohen proposal is
9 that they said, we're going to rely on
10 trickle-down economics. We're going to
11 rely on essentially Reagan economics to
12 give money to people across the board,
13 including people at the top, and have a
14 little of it trickle down to low income
15 people.

16 And they said, to my shock, they
17 said, it doesn't make much difference if we
18 give some money to low income people. What
19 effect is it really going to have on their
20 lives? I couldn't believe what I heard
21 from people on the Commission who said
22 that.

23 I didn't hear it from one poor
24 person's mouth on the Commission because
25 there wasn't one poor working poor person

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2 on the Commission.

3 I didn't hear it from the experts
4 they consulted. I saw -- I didn't hear it
5 from their staff people. But what they had
6 the gall, in my view, to say was that this
7 tax cut for low income working people would
8 not make any difference on their lives.

9 And with those words, let me pass it
10 over to someone whose life would be made
11 important, and who speaks for those many
12 people who are not heard from the Tax
13 Commission.

14 Let's hear a few words now from Miss
15 Juanita Alvarado, who lives in the
16 Frankford area of the City. Miss Alvarado,
17 Councilwoman Blackwell and others are
18 prepared to hear you now, I believe.

19 MS. ALVARADO: Good afternoon, City
20 Council President, Mrs. Blackwell, Mrs.
21 Verna, Mr. Cohen.

22 I have come to City Council today as
23 a very hard-working 63 years old woman to
24 ask you to please pass Councilman Cohen's
25 wage tax bill.

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2 I say these are the personal
3 experience of being what people call a
4 working poor person.

5 Because I was divorced, I have
6 raised five children by myself, without any
7 child support. For the last 18 year, I
8 have worked as a certified nursing
9 assistant.

10 People ask me, why are you retired,
11 as you are 63 years old?

12 I say, I must work. I have no one
13 else to turn.

14 My job at the other nursing agency
15 pays you \$6 an hour, and they don't give
16 more than 27 hours of work each week. My
17 gross weekly wage is just \$157 a week.

18 It's such a little check, it's
19 almost nothing. But the City wage tax take
20 monies out of my little check. And by the
21 end of the year, about \$360 is taken out of
22 my check.

23 I also pay the City real estate tax
24 on the house that I own on 1626 Harrison
25 Street.

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2 I paid other taxes, like sales
3 taxes.

4 If my wage tax was reduced by
5 Councilman Cohen's bill, I will use the
6 money refunded to pay for my medicine that
7 I cannot afford, and also be able to get to
8 the dentist which I can't afford. My
9 present medical insurance doesn't pay for
10 medicine or dental care.

11 My doctor some weeks ago wrote out a
12 prescription for me, and because it cost
13 \$72, I did not get it filled.

14 I will also use the wage tax reform
15 to repair my house, as I have -- as I have
16 exposed wire, and I have no ceiling in my
17 bedroom. And I can see the roof being and
18 water leaking through the roof.

19 It really isn't fair to take taxes
20 from poor working people.

21 I hope you and other of City Council
22 will think of people like me when you vote
23 on Councilman Cohen's bill.

24 Thank you for hearing my story.

25 COUNCILWOMAN BLACKWELL: Thank you

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2 very much. Are there any questions?

3 (No response.)

4 COUNCILWOMAN BLACKWELL: Thank you
5 very much, Mr. Stein, Miss Alvarado, for
6 your testimony.

7 MR. STEIN: Thank you, Miss
8 Blackwell.

9 COUNCILWOMAN BLACKWELL: Certainly.

10 MS. ORTIZ: Our next witness is
11 Richard Weishaupt. I hope I pronounced
12 that right. Mr. Weishaupt, Director of
13 Health and Human Services Division,
14 Community Legal Services.

15 COUNCILWOMAN BLACKWELL: Good
16 afternoon and welcome. Thank you for your
17 patience.

18 MR. WEISHAAPT: Good afternoon,
19 Councilwoman.

20 COUNCILWOMAN BLACKWELL: Good
21 afternoon.

22 MR. WEISHAAPT: Good afternoon, Mr.
23 Cohen.

24 Thank you for having me here today.
25 I'm here to offer some additional testimony

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2 consistent with what the previous two
3 witnesses talked about, particularly about
4 the impact of the wage tax on working low
5 income people, particularly people who are
6 making the transition from welfare to work.

7 Although the Tax Commission and
8 others frequently talk about taxpayers, as
9 opposed to low income people, most low
10 income people pay a much higher proportion
11 of their income for taxes than do more
12 prosperous people.

13 They pay sales tax. They pay
14 property taxes. They pay Federal excise
15 taxes on gasoline, on phone services, and
16 on other utilities, that add up to a much
17 more sizable portion of their income.

18 The wage tax just adds to that
19 burden, a burden that many people find
20 increasingly hard to shoulder.

21 Welfare grants, as I'm sure you
22 know, currently pay about 34 percent of the
23 Federal poverty level which is the lowest
24 they've ever been since the Federal
25 Government established that level in the

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2 1960s.

3 Recipient families have not had a
4 raise in their income since the end of
5 1989. Even with the passage of measures
6 that allows recipients to keep 50 percent
7 of their earnings, people lose all
8 eligibility for cash welfare when their
9 earnings exceed 68 percent of the poverty
10 level.

11 For the typical mother of two
12 children, she loses her eligibility when
13 her earnings exceed \$806 per month.

14 While it may not seem like much,
15 that woman has to pay \$36.27. I'm sorry
16 there's a typo in my written testimony.
17 She pays \$36.27 in wage taxes.

18 And that \$36.27 for a minimum wage
19 worker, means that she has to earn
20 another -- work another seven hours to earn
21 that money back.

22 That's seven hours that she can't be
23 helping her children with her homework.
24 That's seven hours that she can't be taking
25 care of babies. That's seven hours more of

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2 child care she has to pay.

3 Now, you heard my colleague,
4 Jonathan Stein, talk about how the Tax
5 Commission's response was, well, it's such
6 a small amount of money it doesn't make any
7 difference.

8 But a low income mother can tell you
9 that \$36.27 may well buy a winter coat for
10 one of her children, or it might keep the
11 lights on for a month, or pay the water
12 bill or the gas bill.

13 Living on the edge of destitution,
14 that money means a great deal to our
15 clients, who are faced every day, as we
16 know, because our waiting rooms are filled
17 with people asking us to help them with
18 their evictions, their utility shut-offs,
19 or to help them feed their hungry and
20 sometimes ill-clothed children.

21 It's become very popular these days
22 for politicians of all political stripes to
23 talk about how they want to make work pay.

24 Well, here's one way that City
25 Council can help do that, by eliminating

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2 the wage tax for those who are struggling
3 to make ends meet.

4 Since the changes in welfare policy
5 in 1996, Pennsylvania and Philadelphia case
6 loads have dropped precipitously.
7 Pennsylvania's case load has dropped by 50
8 percent; Philadelphia's has dropped by more
9 than 40 percent.

10 Many more people who are still on
11 assistance are also working part-time but
12 can't earn enough to work their way off
13 welfare.

14 In fact, some people on welfare are
15 working in subsidized jobs, where the money
16 for their salary is paid for out of Welfare
17 Department funds. We even tax those
18 subsidized jobs.

19 Most subsidized people work 20 hours
20 a week for the minimum wage, and \$20
21 dollars of that, of their meager
22 earnings -- their meager earnings are about
23 \$400 -- wind up going to the wage tax.

24 It is simply bad social policy to
25 tax away earnings for people living well

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2 below the poverty level.

3 Making them wage tax exempt would
4 boost their disposable income and have an
5 immediate positive effect.

6 Ironically, people who are working
7 and are receiving welfare not only have the
8 wage tax taken out, but their benefits are
9 deducted as if they are getting that money.

10 So, at the same time that they're
11 having that \$37 dollars taken out, their
12 rent is probably going to be increased in
13 public housing by \$9, their food stamps are
14 probably lowered by \$9.

15 All of the programs calculate
16 benefits and eligibility based on gross
17 income, so that Philadelphia residents have
18 their food stamps adjusted downward and
19 their rent increase based on earnings that
20 never reached the low income people's
21 pockets.

22 In fact, they get reduced benefits,
23 even though they never get the money that
24 is similarly employed individual in the
25 suburbs or any other part of the state

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2 would get in their pay.

3 We urge you to end this inequity,
4 and bring progressivity to the wage tax
5 program in Philadelphia.

6 Thank you.

7 COUNCILWOMAN BLACKWELL: Thank you
8 very much, Mr. Weishaupt.

9 (Applause.)

10 Any questions?

11 (No response.)

12 COUNCILWOMAN BLACKWELL: We've seen
13 you around for many years. Thank you for
14 your testimony.

15 MR. WEISHAAPT: I'm not that old,
16 Councilwoman.

17 COUNCILWOMAN BLACKWELL: Neither am
18 I, but we've seen each other.

19 MS. ORTIZ: Our next witness is
20 Vanessa Brown, from the People's Emergency
21 Center, Community Development Corporation.
22 And she will be coming with a client, I
23 believe.

24 MS. BROWN: Good afternoon, Madam
25 Chair.

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2 COUNCILWOMAN BLACKWELL: Afternoon.

3 MS. BROWN: Council people.

4 I'd like to thank you for offering
5 the opportunity for me to testify today.

6 My name is Vanessa Brown, and I represent
7 the People's Emergency Center or PEC.

8 I am here briefly to talk about the
9 benefits of tax relief for hard-working
10 families, low income -- hard-working,
11 low-income families of Philadelphia, and
12 urge you to support Councilman Cohen's
13 legislation on Bill Number 040397, which
14 will reduce and eventually eliminate the
15 Philadelphia Wage Tax on the citizens.

16 PEC is Philadelphia's oldest and
17 most comprehensive social service agency
18 for homeless women and children, teenagers
19 and their children.

20 Since 1972, PEC has helped thousands
21 of abused, abandoned and homeless women and
22 children to rebuild lives of dignity,
23 through programs that help them to help
24 themselves.

25 We work one on one with women and

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2 children to increase their opportunities
3 for a better future with employment
4 advising, workplace readiness workshops,
5 computer skills, and training, placement
6 and retention assistance which enhances
7 their confidence and promotes
8 self-sufficiency and economic independence.

9 Philadelphia has one of the least
10 equitable, least progressive tax systems in
11 the U.S.

12 Rather than promoting a tax system
13 where a tax rates increase with income so
14 that those with the greatest ability to pay
15 higher tax rates, Philadelphia unfairly and
16 unjustly targets working people least able
17 to live on reduced income taxes.

18 According to a report by the
19 Keystone Research Center, Philadelphia
20 taxes its poorest working citizens at a
21 rate of 1.5 times higher than the norm
22 found throughout the rest of the U.S.

23 Out of 51 cities studied, only three
24 imposed a higher tax rate on the low income
25 families.

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2 While our poorest families see a
3 large percentage of their earnings siphoned
4 away, wealthier families do not feel the
5 same burden.

6 The Keystone report finds that a
7 Philadelphia family making \$150,000 is not
8 taxed proportionately as much as a family
9 of four making only \$25,000.

10 Those who can least -- Those who can
11 least afford to be bombarded with an
12 oppressive, regressive, and unfair tax
13 system are hit the hardest.

14 Thus, many Philadelphia families
15 simply cannot afford to pay the wage tax
16 and pay rent and still have enough
17 available income to provide for clothes,
18 food and other basic necessities.

19 Many other families that we work
20 with at PEC struggle to maintain their
21 independence from public services, yet the
22 wage tax undermines their ability to stay
23 self-sufficient.

24 For example, a minimum wage
25 full-time worker with two children making

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2 five fifteen per hour typically brings home
3 a little over \$10,700 per year before
4 taxes.

5 Under the current wage tax rate set
6 at 4.5 percent, these families lose an
7 additional \$482.04 before Federal and state
8 taxes, yet if the wage tax was slowly
9 reduced, as proposed by Councilman Cohen,
10 the same wage earner would only have to pay
11 \$160.68, which would put \$320 directly back
12 into the hands of the hard working family.

13 For those families on a limited
14 budget, an additional \$320 makes a real
15 difference in one's life.

16 Unlike welfare people, these
17 families generally spend almost all of any
18 tax reliefs. They are also more likely to
19 spend that money in their local
20 neighborhood businesses and investing in
21 local economies.

22 Tax relief targeted to low income
23 families assists families to more toward
24 self-sufficiency, while also investing in
25 local economies.

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2 This is an issue of fairness, plain
3 and simple. People should not be penalized
4 for making less money than their wealthier
5 neighbors.

6 It is hard to understand why
7 Philadelphia insists on squeezing its most
8 vulnerable citizens more harshly than
9 almost any other city in the U.S.

10 Please vote for Councilman Cohen's
11 legislation to reform the City Wage Tax.
12 It would only be fair. Thank you.

13 (Applause.)

14 COUNCILWOMAN BLACKWELL: Thank you
15 very much.

16 Any questions for this witness?

17 (No response.)

18 COUNCILWOMAN BLACKWELL: Thank you.

19 MS. ORTIZ: Our next witness is Phil
20 Lord, Executive Director of Tenant's Action
21 Group. He's not here.

22 COUNCILWOMAN BLACKWELL: Is there
23 anyone else here who would like to testify?

24 MS. BERKOWITZ: Ellen Berkowitz. My
25 name is Ellen Berkowitz. I work for

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2 Councilman David Cohen.

3 The Councilman has asked me to read
4 into the record three letters of support
5 that we received today.

6 I'd also like to note that we came
7 prepared with charts that -- with maps that
8 City Planning put together because we
9 wanted to show all of the Council people
10 that the benefits of this bill would affect
11 every single sector of the City, that there
12 is essentially not a single Zip Code in the
13 City where some of your constituents would
14 not benefit.

15 Since most Council people are not
16 here, they will be available in our office,
17 and we would be happy to go over the maps
18 and explain what they mean.

19 I have three letters here. I have a
20 letter from State Representative Rosita
21 Youngblood.

22 COUNCILWOMAN BLACKWELL: Just a
23 moment. The Chair notes that many people
24 are... there are meetings with regard to
25 the taxes, and many -- and some other

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2 Council persons are in their office.

3 So because... Looking at this on
4 closed circuit. So because they are not
5 here, does not mean that they are about the
6 business of doing their duty and meeting
7 their obligations or that they're not
8 concerned about this issue.

9 Thank you. Please continue.

10 MS. BERKOWITZ: No, Madam Chairman.

11 I was not suggesting that. But the maps
12 are available here, and it's probably hard
13 to see on the television. Thank you.

14 This is a letter from State
15 Representative John Taylor from the 177th
16 Legislative District.

17 City Bill 040397 provides a wage tax
18 reduction for certain low income residents
19 and non-residents who are entitled to tax
20 forgiveness under the state personal income
21 tax forgiveness provisions.

22 The tax reductions would be
23 initiated in calendar year 2006 and
24 continue until the wage tax rate for
25 certain low income residents would be

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2 reduced to a 1.5 percent, and the wage tax
3 rate for certain low income non-residents
4 would be reduced to a minimum of 2.4127
5 percent.

6 Based on data made available by the
7 Pennsylvania Department of Revenue for tax
8 year 2001, 160,873 returns filed by
9 Philadelphia residents were eligible for
10 state tax forgiveness, out of a total
11 number of 497,608 returns filed by
12 Philadelphia residents.

13 The state data for 2001 would
14 indicate that about 32 percent of all tax
15 returns filed and about 10 percent of the
16 taxable income of Philadelphia residents
17 would then be eligible for the lower tax
18 rates proposed by the bill.

19 These estimates do not include any
20 impact on non-resident wage earners in
21 Philadelphia.

22 A targeted tax reduction of this
23 type would help relieve a burden on low
24 income families by freeing earned income to
25 spend on necessities and for savings.

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2 A study prepared by Stephen
3 Herzenberg and Mark Price of the Keystone
4 Research Center estimates that 80 percent
5 of the taxes saved by low income
6 Philadelphians would be spent locally.

7 Local spending will boost economic
8 activity in the City, leading eventually to
9 more jobs.

10 I support this tax reduction
11 proposal and hope that City Council and the
12 Mayor will adopt it.

13 Sincerely, John J. Taylor, State
14 Representative, 177th Legislative District.

15 I also have a letter from State
16 Represent Rosita C. Youngblood.

17 To the Honorable David Cohen,
18 Councilman of Philadelphia, Room 588, City
19 Hall, Philadelphia 19107.

20 Dear Councilman Cohen, let me start
21 by apologizing that I could not testify
22 personally in front of you.

23 I hope that this letter carries the
24 same weight, as this is an important bill
25 that would bring much needed relief to the

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2 constituents of my District and the
3 citizens of Philadelphia.

4 Bill Number 040397 is a bill that
5 supports the need to promote a healthier
6 economy, through a systemized reduction in
7 wage tax for the poor but hard working
8 people of the City of Philadelphia.

9 This bill encourages the hard
10 working people of our City to stay in
11 Philadelphia and keep working there.

12 Bill Number 040397 will help to
13 encourage more individuals to work in the
14 City because a reduced wage tax will allow
15 them to keep more of their income.

16 The increased wealth accumulated by
17 individuals will be deposited back into the
18 economy and help revive the financial
19 stability of Philadelphia.

20 Bill 040397 mirrors my own bill that
21 I introduced in the House this session,
22 HB-2431. HB-2431 is a measure designed to
23 expand special property tax provisions to
24 certain populations in the First Class City
25 in the Commonwealth, Philadelphia.

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2 This legislation would amend Act 91
3 of 1996. Act 91 provides special tax
4 provisions allowing for the refund or
5 forgiveness of real property tax liability
6 for certain low income seniors.

7 HB-2431 would expand the program to
8 include low income persons, the disabled,
9 the infirm and senior citizens.

10 The Bill also changes the language
11 of Act 91 from authorizing cities of the
12 First Class, Philadelphia, to provide these
13 special tax provisions, to requiring the
14 City of Philadelphia to provide these
15 special tax provisions.

16 2431 was referred to the House
17 Finance Committee for review on March 16,
18 2004.

19 Whereas Bill Number 040397 reduces
20 the wage tax to lower income individuals
21 and thus raises their personal wealth, 2431
22 complements the economy in a slightly
23 different way.

24 2431 will allow more people the
25 opportunity to purchase homes and will help

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2 those already in houses to stay there.

3 This internally will reduce the
4 number of abandoned properties in
5 Philadelphia. When people own their homes,
6 they will take more pride in their block
7 and their neighborhood, and in turn their
8 City.

9 A combination of Bill Number 040397
10 and 2431 would give much needed relief to
11 the lower income citizens of Philadelphia.

12 By combining wage tax reduction with
13 the property tax reduction, our
14 constituents would not only be able to work
15 in Philadelphia, but buy and maintain a
16 home here as well.

17 Thank you for allowing me to enter
18 my testimony into the record. If you need
19 further testimony on 2431, please do not
20 hesitate to contact me.

21 Working together, City Council and
22 the House of Representatives can advance
23 the economy of the City of Philadelphia and
24 the Commonwealth of Pennsylvania.

25 Sincerely, Rosita C. Youngblood,

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2 State Representative, 198th Legislative
3 District.

4 The third letter is a statement from
5 Elizabeth C. McNichol, Senior Fellow,
6 Center on Budget and Policy Priorities,
7 from Washington, D.C.

8 Members of the Council of the City
9 of Philadelphia, I appreciate the
10 opportunity to offer my comments on Bill
11 Number 040397.

12 I am Elizabeth McNichol, a Senior
13 Fellow with the Center on Budget and Policy
14 Priorities in Washington, D.C.

15 The Center is a non-partisan,
16 nonprofit research institute that analyzes
17 a wide variety of Federal, state and local
18 budget and tax policy matters, with a
19 particular focus on how they affect
20 families and individuals with low incomes.

21 One area of focus for the Center is
22 low income tax relief. It is well known
23 that many families in Pennsylvania and
24 across the country struggle to make ends
25 meet, despite the fact that one or more

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2 family members are working.

3 In Pennsylvania more than two-thirds
4 of poor families, that is, families with
5 incomes below the Federal poverty line
6 which equals \$18,811 for a family of four
7 in 2003, include parents who worked a
8 combined total of 13 or more weeks each
9 year.

10 While similar figures are not
11 available for the City of Philadelphia,
12 there is no reason to think that the
13 pattern would be different here.

14 Taxing the incomes of working poor
15 families runs counter to the efforts by
16 policy makers across the political spectrum
17 to provide more assistance to these
18 families seeking to work their way out of
19 the poverty.

20 Eliminating all or most state income
21 taxes on working families, as many states
22 have done, with poverty level incomes gives
23 a boost in take-home pay that helps offset
24 higher child care and transportation costs
25 that families incur as they strive to

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2 become economically self-sufficient.

3 At the state level, Pennsylvania
4 addresses this problem through the state's
5 low income tax forgiveness provisions.

6 Our annual analysis of state income
7 tax burdens on low income families finds
8 that among states with an income tax,
9 Pennsylvania has the second highest income
10 tax threshold for families of four with two
11 children of states with an income tax.

12 The income tax threshold is the
13 point at which, as a family's income rises,
14 it first begins to owe taxes. The higher a
15 state's threshold, the more poor and near
16 poor families are exempted from taxes.

17 Local governments that levy income
18 based taxes have also begun to recognize
19 the importance of low income tax relief
20 that extends beyond state taxes.

21 For example, Montgomery County,
22 Maryland offers a local earned income tax
23 credit, a refundable tax credit for low
24 income families.

25 As you know, Philadelphia's wage tax

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2 does not include similar provisions. As a
3 result, poor families pay the same rate of
4 tax on wages as well off families.

5 The bill before you would address
6 this problem by reducing the wage tax for
7 low income workers in the City, and
8 eliminating it for the lowest income
9 families.

10 This type of low income tax relief
11 would benefit the City's low income working
12 families and the City's economy.

13 Reducing the City's wage tax is a
14 topic of much discussion in the City.
15 Making the wage tax more like the state's
16 income tax, by including a tax forgiveness
17 provision would serve to reduce the wage
18 tax in a more targeted way than
19 across-the-board wage tax cuts.

20 Reducing the tax burden of low
21 income working families helps families work
22 their way out of poverty and up the
23 economic ladder.

24 Low income tax relief complements
25 welfare reform initiatives by increasing

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2 family's take-home pay and freeing money
3 for work related expenses such as child
4 care and transportation.

5 A wage tax reduction for low income
6 families would be more targeted on City
7 residents than an across-the-board
8 reduction of the wage tax.

9 This is because low income families
10 make up a higher proportion of resident
11 wage taxpayers than of suburban wage
12 taxpayers.

13 Low income families also spend more
14 of their after tax earnings than higher
15 income families, so their added income from
16 the tax cut would boost the local economy
17 to a greater extent than if a wealthier
18 family received the tax break.

19 The City of Philadelphia low income
20 credit would serve to offset some of the
21 regressivity of the City and state tax
22 structure.

23 Most state and local tax systems are
24 regressive, placing a higher burden on low
25 and moderate income families than on higher

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2 income families. Pennsylvania is no
3 exception.

4 According to a recent study by the
5 Institute on Taxation and Economic Policy,
6 ITEP, the poorest fifth of Pennsylvania's
7 taxpayers pay over 11 percent of their
8 income in state and local taxes, while the
9 richest one percent pay less than half of
10 that, 4.8 percent.

11 Tax reform at the City or state
12 level can serve to increase or lessen this
13 disparity. It is important to note that
14 the wage tax, while not a progressive tax,
15 is less regressive than other taxes levied
16 on individuals in the City, and than the
17 taxes levied by other cities, such as local
18 sales taxes.

19 An across-the-board cut in the wage
20 tax, without targeted relief for the poor,
21 could shift the City's tax burden to other
22 taxes that are even more heavily paid for
23 by the poor.

24 Of course, the cost any tax
25 reduction proposal must be considered

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2 because of the effect of reduced taxes on
3 the City's ability to provide services to
4 its residents.

5 The targeted wage tax cut for low
6 income families would provide significant
7 tax relief to the families who most need it
8 at a lower cost than an across-the-board
9 reduction.

10 In addition, the bill phases in the
11 tax reduction over a number of years which
12 allows the Mayor and Council time to
13 consider ways to replace the revenue lost.

14 I also have testimony from Jennine
15 Miller, Coordinator of Education and
16 Advocacy and Judy Ortiz, former Project
17 H.O.M.E. resident and Back Home Cafe
18 Server.

19 Thank you for the opportunity to
20 testify before this Commission regarding
21 the provisions in Bill 030422, which would
22 offer low-wage workers an opportunity for
23 reimbursement of their wage taxes. Project
24 H.O.M.E. supports this bill, which is
25 similar to existing measures at the state

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2 is economically sound, in that
3 beneficiaries would re-spend these dollars
4 and offer a boost to local business. We
5 believe that this bill merits consideration
6 not only because the fiscal cost is small,
7 but because the human return on investment
8 is large.

9 This bill relieves low-income people
10 and families of just one of the many
11 obstacles they face every day. While we
12 support the recommendations of the Tax
13 Reform Commission, we believe that Council
14 has a real opportunity to shape City tax
15 policy in positive ways for years to come;
16 addressing this issue as part of the tax
17 package would make a positive result for
18 all Philadelphians more likely.

19 I would like to introduce you to
20 Judy Ortiz who will talk to us about the
21 ways this bill will benefit her.

22 This is Ms. Ortiz's testimony:
23 Thank you for giving us the opportunity to
24 testify at this hearing. My name is Judy
25 Ortiz and I am a former resident of Project

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2 H.O.M.E. Currently I work in their Back
3 Home Cafe as a server and live with my
4 family in subsidized housing.

5 It's not easy to talk publicly about
6 what are personal matters, finances, but
7 I'm here to try to help all of the people
8 who will be affected by this bill. I live
9 with four dependent children and earn only
10 a small amount from my part-time job and
11 rest from Social Security Disability
12 Income, SSDI. As you can imagine, this
13 doesn't go very far with four teenager
14 daughters. I am aware of my complete
15 budget and stretch every nickel as far as
16 it will go. But someone or something
17 always has to wait.

18 Under councilman Cohen's bill, I
19 would save just over \$200 per year. While
20 this isn't going to change my family's
21 overall financial picture, it is rent for
22 one month, the gas and phone bill, or maybe
23 the electric bill in the summer. If I find
24 the right sales, it might even cover our
25 grocery bill. It might just mean that some

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2 month, for once, no one has to wait.

3 There is also a letter from John
4 Meyerson, Political/Legislative Director of
5 United Food & Commercial Workers AFL-CIO,
6 CLC, Local 1776.

7 Dear Councilman Cohen:

8 On behalf of Wendell W. Young, III
9 and the over 10,000 members of U.F.C.W.
10 Local 1776 who live in the City of
11 Philadelphia, I strongly urge you to
12 support this ordinance.

13 We support this legislation for the
14 following reasons:

15 It is the right thing to do. If any
16 segment of our population deserves a tax
17 cut, it is our citizens who are financially
18 struggling to support themselves and their
19 families while holding down at least one
20 job. Many of these employees are members
21 of U.F.C.W. Local 1776 working part-time in
22 the retail industry while waiting for a
23 full-time job that would carry them out of
24 the low-wage category.

25 Studies have shown that money in the

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2 hands of the working poor is spent locally
3 and turned over in the community several
4 times, increasing the economic well being
5 of merchants and providers of services
6 throughout the City. This increased
7 spending would provide a boon for
8 businesses that could be as significant as
9 some of the business tax cuts that are also
10 being contemplated.

11 Please keep our concerns in mind as
12 you debate this issue and support Bill
13 Number 040397.

14 sincerely, U.F.C.W. Local 1776, John
15 Meyerson, Political/Legislative Director.

16 Thank you.

17 COUNCILWOMAN BLACKWELL: Thank you
18 very much.

19 Is there anyone else to testify?

20 (No response.)

21 COUNCILWOMAN BLACKWELL: We thank
22 everyone for their participation, and
23 hereby announce that this hearing will be
24 recessed until Monday, May 24th at 10 a.m.

25 (Hearing concluded at 3:30 p.m.)

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CERTIFICATE

I HEREBY CERTIFY that the proceedings and evidence are contained fully and accurately in the stenographic notes taken by me upon the public hearing of The Philadelphia City Council, taken on May 19, 2004, and that this is a true and correct transcript of same.

DAVID A. DEIK, RPR and
Commissioner of Deeds

(The foregoing certification of this transcript does not apply to any reproduction of the same by any means, unless under the direct control and/or supervision of the certifying reporter.)