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COUNCIL OF THE CITY OF PHILADELPHIA
PUBLIC HEARING BEFORE THE JOINT COMMITTEES OF
THE WHOLE AND FINANCE

- - -

Room 400, City Hall
Philadelphia, Pennsylvania
Monday, May 24, 2003
12:00 p.m.

- - -

Bill No. 040255

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

- - -

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2 (Council members were not present for
3 the following statements.)

4 (Mr. McPherson entered Council chambers
5 at 12 noon.)

6 MR. MCPHERSON: The Committee of the
7 Whole and the Committee on Fiscal Stability will be
8 recessed until 2 o'clock.

9 (The hearing recessed until 2:00 p.m.)

10 MR. MCPHERSON: The Committee on Fiscal
11 Stability and the Committee of the Whole is going to
12 stand in recess until 3 o'clock.

13 Councilwoman Blackwell's hearing on
14 Century 21 is going to be moved to June 1 at 10:00
15 a.m.

16 (The hearing recessed until 3:00 p.m.)

17 MR. MCPHERSON: The Committee on Fiscal
18 Stability and the Committee of the Whole will be
19 recessed until 4 o'clock.

20 (The hearing recessed until 4:00 p.m.)

21 MR. MCPHERSON: The Committee of Fiscal
22 Stability and the Committee of the Whole are in
23 recess until 5:00.

24 (The hearing recessed until 5:00 p.m.)

25

1 Whole & Fiscal Stability Hearing - 5/24/04

2 MS. ORTIZ: The Committee of the
3 Whole and Fiscal Stability will recess
4 until 7:00 p.m. this evening.

5 (Recess to 7:00 p.m.)

6 MR. McPHERSON: The Committee on
7 Fiscal Stability and Committee of the Whole
8 will be recessed until 8:00 p.m.

9 (Recess to 8:00 p.m.)

10 MR. McPHERSON: The Committee on
11 Fiscal Stability and the Committee of the
12 Whole are recessed until 9:00.

13 (Recess to 9:00 p.m.)

14 MR. McPHERSON: The Committee on
15 Fiscal Stability and the Committee of the
16 Whole are recessed until 10:00 this
17 evening.

18 (Recess to 10:00 p.m.)

19 (The Committee of the Whole and the
20 Committee on Fiscal Stability began at
21 10:50 p.m.)

22 COUNCIL PRESIDENT VERNA: Good
23 evening, everyone.

24 This is the public hearing of the
25 Committee of the Whole. And I would ask

1 Whole & Fiscal Stability Hearing - 5/24/04

2 Mr. McPherson to please read the bill
3 numbers and the titles of the bills.

4 MR. MCPHERSON: Bill Number 040009,
5 an Ordinance amending Chapter 19-1500 of
6 The Philadelphia Code, entitled "Wage and
7 Net Profits Tax," by decreasing the rates
8 of the tax, by making technical
9 amendments --

10 COUNCIL PRESIDENT VERNA: Councilman
11 Cohen asked that we read a little slower.

12 MR. MCPHERSON: I'm sorry.

13 -- by decreasing the rates of the
14 tax, by making technical amendments,
15 changing the effective dates for rate
16 changes, and, repealing certain provisions,
17 all under certain terms and conditions.

18 Bill 040010, an Ordinance amending
19 Section 19-2604 of The Philadelphia Code,
20 relating to tax rates, credits and
21 alternative tax computation for the
22 business privilege tax, by reducing certain
23 tax rates, all under certain terms and
24 conditions.

25 Bill Number 040011, an Ordinance

1 Whole & Fiscal Stability Hearing - 5/24/04
2 amending Title 2 of The Philadelphia Code,
3 entitled "City-County Consolidation," by
4 removing the authority of the Board of
5 Revision of Taxes to hear appeals and
6 reassigning that authority, with the power,
7 functions and duties of hearing and
8 deciding appeals, from the Board of
9 Revision of Taxes assessment, to a newly
10 appointed independent City agency to be
11 known as the Property Assessment Appeals
12 Board.

13 Bill Number 040012, an Ordinance
14 amending Chapter 19-2600 of The
15 Philadelphia Code, entitled "Business
16 Privilege Taxes," by amending the
17 definition of "Net Income" to determine the
18 net income of unincorporated businesses by
19 allowing deductions of payments to certain
20 proprietors or partners.

21 Bill Number 040013, an Ordinance
22 amending Chapter 19-1300 of The
23 Philadelphia Code, entitled "Real Estate
24 Taxes," by specifying a rate for tax year
25 2004, specifying that rates thereafter be

2 dependent on total taxable assessed values
3 certified by the Board of Revision of
4 Taxes.

5 Bill Number 040014, an Ordinance
6 amending Chapter 19-2600 of The
7 Philadelphia Code, entitled "Business
8 Privilege Taxes," by providing a minimum
9 number of estimated tax payments in the
10 last six months of the City's fiscal year
11 and authorizing additional estimated
12 payments in the first six months of the
13 subsequent fiscal year.

14 Bill Number 040015, an Ordinance
15 amending Chapter 19-1300 of The
16 Philadelphia Code, entitled "Real Estate
17 Taxes" to mandate a phase-in of equal
18 percentages of the Target Tax Billings to
19 be imposed upon lands and buildings for
20 real estate tax purposes.

21 Bill Number 040016, an Ordinance
22 repealing Section 19-2500 of The
23 Philadelphia Code, entitled "Real Estate
24 Non-Utilization Tax," effective January 1,
25 2005, all under certain terms and

2 conditions.

3 Bill Number 040017... I'm sorry.
4 Bill Number 040016, an Ordinance Repealing
5 Chapter 19-2500 of The Philadelphia Code,
6 entitled Real Estate Non-Utilization Tax,"
7 effective January 1, 1005, all under
8 certain terms and conditions.

9 Bill Number 040017, an Ordinance
10 amending Chapter 19-2600 of The
11 Philadelphia Code, entitled "Business
12 Privilege Taxes" by amending the definition
13 of "Net Operating Loss" with respect to
14 carryforward period for net operating
15 losses.

16 Bill Number 040018, an Ordinance
17 amending Chapter 19-1302 of The
18 Philadelphia Code, entitled "Installment
19 Payments" to provide for the Department of
20 Revenue to accept payment of real estate
21 taxes in four equal payments, all under
22 certain terms and conditions.

23 Bill Number 040019, an Ordinance
24 amending Chapter 19-1400 of The
25 Philadelphia Code, entitled "Realty

3 of "Value" to include deeds in lieu of
4 foreclosure.

5 Bill Number 040020, an Ordinance
6 amending chapter 19-1300 of the
7 Philadelphia Code, entitled "Real Estate
8 Taxes" by providing discounts and penalties
9 related to the installment payments and new
10 fiscal year billing, and to guarantee that
11 payments are applied to current year tax
12 first to avoid accumulation of additions
13 and penalties.

14 Bill Number 040021, an Ordinance
15 amending Chapter 19-500 of The Philadelphia
16 Code, entitled "Taxes and Rents-General,"
17 by providing for uniform time limitations
18 on collections, examinations and
19 assessments, under certain terms and
20 conditions.

21 Bill Number 040022, an Ordinance
22 amending chapter 19-1300 of The
23 Philadelphia Code, entitled "Real Estate
24 Taxes," by providing that no change by the
25 Board of Revision of Taxes to the ratios it

3 effective unless Council by ordinance
4 adjusts real estate tax rates so that such
5 change is revenue neutral or unless Council
6 otherwise approves such change by
7 ordinance, all under certain terms and
8 conditions.

9 Bill Number 040255, an Ordinance
10 adopting the Operating Budget for Fiscal
11 Year 1005.

12 Bill Number 040256, an Ordinance
13 amending Chapter 19-1200 of The
14 Philadelphia Code, entitled "Parking Tax,"
15 by establishing a rate of taxation on
16 parking transactions for Fiscal Year 2005
17 and thereafter, under certain terms and
18 conditions.

19 COUNCILMAN COHEN: What is the
20 purpose of the reading the title of each
21 bill now? Because they're going to have to
22 be reread and explained each time the bill
23 is presented.

24 MR. MCPHERSON: This was a
25 re-advertised meeting of all the bills, to

10

1 Whole & Fiscal Stability Hearing - 5/24/04
2 make sure that in case of any break that we
3 had, we had any technical problems.

4 Bill Number 040257, an Ordinance to
5 adopt a Capital Program for the six Fiscal
6 Years 2005 to 2010 inclusive.

7 Bill Number 040258, an Ordinance to
8 adopt a Fiscal 2005 Capital Budget.

9 Bill Number 040259, an Ordinance
10 amending Section 19-1801 of The
11 Philadelphia Code, entitled "Authorization
12 of Tax," to further authorize the Board of
13 Education of the School District of
14 Philadelphia to impose a tax on real estate
15 within the City of Philadelphia, under
16 certain terms and conditions.

17 Bill Number 040260, an Ordinance
18 amending Chapter 19-1800 of the
19 Philadelphia Code, entitled "School Tax
20 Authorization," by amending Section
21 19-1804, entitled "Authorization of Net
22 Income Tax," to further authorize the Board
23 of Education of the School District of
24 Philadelphia to impose a tax on net income
25 from real property and tangible and

11

1 Whole & Fiscal Stability Hearing - 5/24/04
2 intangible personal property of residents
3 of the School District of Philadelphia, all

4 under certain terms and conditions.

5 Bill Number 040261, an Ordinance
6 amending Chapter 19-1500 of The
7 Philadelphia Code, entitled "Wage and Net
8 Profits Tax," by establishing certain tax
9 rates, amending the effective dates of
10 various tax rate changes, and by amending
11 the definition of Excess Growth Rate, all
12 under certain terms and conditions.

13 Bill Number 040262, an Ordinance
14 amending Chapter 19-1800 of The
15 Philadelphia Code, entitled "School Tax
16 Authorization," by amending Section 19-1806
17 to further authorize the Board of Education
18 of the School District of Philadelphia to
19 impose a tax on the use or occupancy of
20 real estate within the School District of
21 Philadelphia, under certain terms and
22 conditions.

23 Bill Number 040313, an Ordinance
24 amending Chapter 19-2600 of The
25 Philadelphia Code, entitled "Business

12

1 Whole & Fiscal Stability Hearing - 5/24/04
2 Privilege Taxes," by making permanent and
3 clarifying the pilot program under which a
4 Job Creation Tax Credit will be given to

5 certain businesses that create new jobs
6 within the City of Philadelphia, all under
7 certain terms and conditions.

8 Bill Number 040397, an Ordinance
9 amending Chapter 19-1500 of The
10 Philadelphia Code, entitled "Wage and Net
11 Profits Tax," by decreasing in six stages
12 the rates of the tax imposed upon certain
13 low income persons, providing for refunds
14 of excess taxes paid, and directing the
15 Revenue Department to prepare forms for use
16 by eligible taxpayers seeking such refunds,
17 all under certain terms and conditions.

18 Bill Number 040421, an Ordinance
19 amending Titles 3 and 6 of The Philadelphia
20 Code, the "Air Management Code" and "Health
21 Code," respectively, by increasing the fees
22 or establishing new fees for various
23 health-related licenses, permits,
24 certificates, approvals and variances
25 issued by the City and for various

13

1 Whole & Fiscal Stability Hearing - 5/24/04
2 inspections, examinations, reviews and
3 other services provided by the Department
4 of Public Health, all under certain terms

5 and conditions.

6 Bill Number 040422, an Ordinance
7 amending Title 9 of The Philadelphia Code,
8 entitled "Regulation of Businesses, Trades
9 and Professions," by adding a new Section
10 establishing a fee schedule for
11 reinspections conducted by the Department
12 of Licenses and Inspections for failure to
13 comply with the provisions of Title 9; and
14 amending Title 4, Subcode "A," Section
15 A-901.10, entitled "Reinspection Fees," to
16 amend the fee schedule for reinspections
17 conducted by the Department of Licenses and
18 Inspections for failure to comply with the
19 provisions of certain technical codes, all
20 under certain terms and conditions.

21 bill Number 040423, an Ordinance
22 amending Section 11-203 of The Philadelphia
23 Code, entitled "Sewer and Water Pipe and
24 Other Underground Services," by increasing
25 permit fee charges for breaking and

14

1 Whole & Fiscal Stability Hearing - 5/24/04
2 excavating of any paved or macadamized
3 street, under certain terms and conditions.

4 And for the Committee on Fiscal
5 Stability, Resolution 040276, Resolution

6 providing for the approval by the Council
7 of the City of Philadelphia of Revised
8 Five-Year Financial Plan for the City of
9 Philadelphia, covering Fiscal Years 2005
10 through 2009, and incorporating proposed
11 changes with respect to Fiscal Year 2004
12 which is to be submitted by the Mayor to
13 the Pennsylvania Intergovernmental
14 Cooperation Authority, pursuant to the
15 Intergovernmental Cooperation Agreement,
16 authorized by an Ordinance of this Council,
17 approved by the Mayor on January 3, 1992,
18 by and between the City and the Authority.

19 COUNCIL PRESIDENT: Thank you. Do
20 we have any witnesses to testify?

21 Miss Wilkerson.

22 MS. WILKERSON: Good evening. My
23 name is Joyce Wilkerson. I'm Chief of
24 Staff to Mayor John Street.

25 With me today is Janice Davis, the

15

1 Whole & Fiscal Stability Hearing - 5/24/04
2 City Finance Director, and Secretary of the
3 School Oversight; Phil Goldsmith the
4 Managing Director; and Rub Dubow, the
5 City's Budget Director.

6 When we last testified in support of
7 the City's five-year financial plan,
8 subsequent to our last testimony in support
9 of the City's five-year financial plan, the
10 City has experienced a number of factors
11 that have caused us to need to request an
12 amendment to that financial plan.

13 Last week we circulated to all
14 Council members proposed amendments that
15 reduced the projected revenues by \$18
16 million annually, in order to account for
17 the Gas Works not making its annual payment
18 to the company.

19 There also is a proposal to move
20 back two years the repayment of the \$45
21 million loan from the company to the City.

22 In addition, there's one additional
23 change that the proposed amendments make,
24 and that would reduce by \$4 million
25 annually, beginning in FY '05, the interest

16

1 Whole & Fiscal Stability Hearing - 5/24/04

2 earned from the Water Revenue Fund.

3 Those cuts in revenue are offset by
4 cuts, across-the-board cuts, to most City
5 departments, 3.5 percent cuts in most City
6 departments, with the exemption of the Fire

7 Department and those departments within the
8 City that generate revenue for the City.

9 That proposal, the proposed
10 amendment to the five-year plan, and
11 amendments to the Operating Budget were
12 distributed last week.

13 I have another copy I can submit for
14 the record, but we would ask that those be
15 considered by the Council.

16 And I also understand that there may
17 be additional amendments. And if possible,
18 I'd like to have an opportunity to offer
19 some comments on those at the appropriate
20 time.

21 COUNCIL PRESIDENT VERNA: Very well.

22 Do we have anyone else to testify?

23 (No response.)

24 COUNCIL PRESIDENT VERNA: Seeing no
25 one, the Chair recognizes Councilman

17

1 Whole & Fiscal Stability Hearing - 5/24/04

2 Nutter. I'm sorry. I'm sorry. We have to
3 go into a public meeting. This will
4 conclude our public hearing.

5 COUNCIL PRESIDENT VERNA: We will

6 now go into our Public... Yes. Sorry.

7 Councilman Clarke.

8 COUNCILMAN CLARKE: Thank you.

9 Madam President, real briefly, we received
10 some numbers as a result of the interaction
11 between the Administration and the Council,
12 some of the Council's technical staff.

13 And it speaks about the five-year...
14 not necessarily plan, but the five-year
15 plan and the dollar amount, in terms of the
16 deficit for these next five years.

17 And one of the questions is, given
18 the potential significant number associated
19 with the out years, particularly '09, where
20 there's a number of \$388 million, is there
21 any corresponding expenditure reductions or
22 offsets in revenue from any other place
23 that we've identified or...

24 COUNCIL PRESIDENT VERNA: We don't
25 have a copy of that. Mr. McPherson just

18

1 Whole & Fiscal Stability Hearing - 5/24/04
2 went in to get his copy.

3 (Pause)

4 COUNCIL PRESIDENT VERNA: Okay.
5 Councilman, do you mind repeating your
6 question, please?

7 COUNCILMAN CLARKE: Yeah. I was

8 just referencing the document that we were
9 given, that lays out the reductions as a
10 result of particularly Bill 9, 10 and 12,
11 and subsequently the potential deficit.

12 And it's all relative to, you know,
13 what set of assumptions you agree with, but
14 on the out years and particularly in '09,
15 it references a deficit of around \$388
16 million.

17 And the question was, do we have any
18 information that talks about expenditure,
19 reduction or increases in revenue to offset
20 that substantial number?

21 COUNCIL PRESIDENT VERNA: No, we
22 don't. We do not.

23 COUNCILMAN CLARKE: So we only have
24 information on the first year?

25 COUNCIL PRESIDENT VERNA: Yes.

19

1 Whole & Fiscal Stability Hearing - 5/24/04

2 COUNCILMAN CLARKE: In the outlying
3 years there's a deficit associated with
4 those numbers --

5 COUNCIL PRESIDENT VERNA: Yes.

6 COUNCILMAN CLARKE: -- that I think
7 we all agree with we that have no

8 information on...

9 COUNCIL PRESIDENT VERNA: Agreed.

10 COUNCILMAN CLARKE: ...how we're
11 going to fill that gap.

12 COUNCIL PRESIDENT VERNA: Agreed.

13 COUNCILMAN CLARKE: Okay. All
14 right. I just wanted to get clarification
15 on that.

16 COUNCIL PRESIDENT VERNA: Thank you.

17 COUNCILMAN CLARKE: Thank you, Madam
18 President.

19 COUNCIL PRESIDENT VERNA: Councilman
20 Kenney, your light's on.

21 COUNCILMAN KENNEY: Yes, Madam
22 President.

23 Prior to going into our Public
24 Meeting, I'd just like to take the
25 opportunity to make a statement.

20

1 Whole & Fiscal Stability Hearing - 5/24/04

2 When we first adopted our rules in
3 January, as you know, there was a great
4 amount of concern and argument back and
5 forth about whether or not we should do
6 them, and there are still some issues of
7 reservation that I have.

8 But I always like to take the

9 opportunity to thank you personally, along
10 with Majority Leader Blackwell and Minority
11 Leader O'Neill for the way in which you
12 conducted yourselves over the past few
13 days, in sharing information with us and
14 keeping us in the loop, in bringing the
15 Council together as a body, allowing to us
16 deliberate, allowing us to have our
17 opinions and to express them, and whether
18 or not we agree with the way in which --
19 whether we agree with people's votes today
20 on these bills, I think that we really
21 conducted ourselves as a deliberative
22 legislative body, and we have yourself and
23 Councilwoman Blackwell and Councilman
24 O'Neill to thank. And I want to thank you
25 for it personally.

21

1 Whole & Fiscal Stability Hearing - 5/24/04

2 COUNCIL PRESIDENT VERNA: Thank you
3 very much.

4 COUNCILWOMAN BLACKWELL: Thank you.

5 COUNCIL PRESIDENT VERNA: The Chair
6 recognizes Councilman Cohen. Your light is
7 on, sir.

8 COUNCILMAN COHEN: Yes. Thank you,

9 Madam Chair.

10 Generally speaking, tax programs
11 when they're sought to be amended, seek to
12 shift the tax burden from one group of
13 people to another group of people.

14 Yet I haven't heard any
15 identification of those who are going to be
16 winners and those who are going to be
17 losers in this discussion. Is there
18 anything that causes that unusual
19 occurrence?

20 MS. WILKERSON: I can offer... If
21 you're asking me, I can offer...

22 COUNCILMAN COHEN: Yes.

23 MS. WILKERSON: ...some input on
24 that issue. I think what we have is a
25 shift. And I think one of the things

22

1 Whole & Fiscal Stability Hearing - 5/24/04

2 underpinning the Tax Reform Commission is a
3 shift from what is viewed as an over
4 reliance on the wage tax and the business
5 tax on to the property tax, that it is the
6 sense of the Tax Reform Commission that
7 that will make Philadelphia more in line
8 with other jurisdictions, and therefore
9 more competitive.

10 And so I think as you work through
11 the tax reform proposals, and the ones
12 directly in front of you today, you'll find
13 that it's a decrease in the business taxes,
14 a decrease in the wage tax.

15 And when Councilman talked about
16 some of the out years, I think what we'll
17 see is the deficit being made up through
18 growth in the property tax, and if not an
19 actual increase in the rate of the property
20 tax.

21 The Administration has also proposed
22 an increase in the parking tax, as a way of
23 trying to offset the lost revenues.

24 And so, I think you do have winners;
25 you do have losers.

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2 The Administration over time has
3 supported some of these measures. There
4 are challenges with our property taxes, but
5 it's our position that the set of bills
6 before you go overboard, that what we have
7 is a City that will be left with inadequate
8 resources to maintain services throughout
9 the City.

10 When you reach the point that at the
11 end of the five-year plan you have a \$242
12 million deficit, we're going to live in a
13 City that's substantially different from
14 what it is today.

15 We won't be in a position of
16 providing the quality neighborhoods. We
17 won't be in a position of maintaining the
18 Clip Program.

19 We won't be able to maintain high
20 level Police Department services, the
21 Recreation Department. There will be
22 virtually no department in the City that
23 won't be impacted dramatically.

24 You cannot take \$242 million out of
25 a budget in a single year, which I guess is

24

1 Whole & Fiscal Stability Hearing - 5/24/04

2 what we would be looking at by FY '09, in
3 order to accommodate the tax changes that
4 are proposed.

5 COUNCILMAN COHEN: Well, having
6 dealt generally with the groups that will
7 benefit and the groups that will lose, how
8 otherwise would you characterize them? Is
9 business gained? Do private residents
10 gains? Who gains?

11 MS. WILKERSON: I think what you
12 have is, you have business taxes
13 decreasing. I think that you had -- And to
14 the extent that some of those businesses
15 are non-resident businesses, what you find
16 is a shift onto Philadelphia residents.

17 You know, one of the things that I
18 think the City has to grapple with is the
19 recommendation by the Tax Reform Commission
20 that we rely less on the business tax, less
21 on the wage tax, and put more on to our
22 property tax.

23 It does a -- what may be a very
24 thorough review of Philadelphia taxes, in
25 comparison to other jurisdictions, and

25

1 Whole & Fiscal Stability Hearing - 5/24/04

2 finds that we have lower property taxes.

3 I think what's unusual about
4 Philadelphia is that we have such a high
5 incidence of low income and moderate income
6 homeowners.

7 And so, as the tax burden shifts
8 onto property tax, you'll find that, you
9 know, the residents, the senior citizens
10 are going to be more heavily impacted.

11 COUNCILMAN COHEN: How about out of
12 the City residents? How do they play a
13 role in this? Do they benefit? Do they
14 have more taxes to pay or less taxes?

15 MS. WILKERSON: I think in the long
16 run they'll probably have higher taxes. I
17 think that they'll -- To the extent that we
18 have a degradation in City services, it's
19 going to impact Philadelphia residents.

20 COUNCILMAN COHEN: Well, do you
21 know; of the current tax revenue received
22 by the City, what percentage is paid by
23 out-of-town residents? Are there any
24 studies or analyses of that?

25 MS. WILKERSON: Mr. Dubow can answer

26

1 Whole & Fiscal Stability Hearing - 5/24/04

2 that.

3 MR. DUBOW: On the wage tax, it's
4 approximately two-thirds resident, one
5 third non-resident.

6 COUNCILMAN COHEN: One-third
7 non-resident on the wage tax.

8 MR. DUBOW: Yes.

9 COUNCILMAN COHEN: How about on the
10 business taxes?

11 MR. DUBOW: I don't know. I don't

12 know how that breaks out.

13 COUNCILMAN COHEN: Mr. Dubow, in
14 your experience, would you say the current
15 system is more friendly or less friendly to
16 residents, as compared to business owners,
17 than the new proposals will be?

18 MR. DUBOW: Well, the new proposals
19 would probably be a bigger benefit to
20 businesses than to residents. So, in terms
21 of a shift, if there's some kind of shift,
22 it would make it -- it would tilt it more
23 towards businesses than the current system.

24 COUNCILMAN COHEN: Is there any
25 statistic that shows that about 40 percent

27

1 Whole & Fiscal Stability Hearing - 5/24/04
2 of income from business taxes come from
3 out-of-state residents, out-of-state
4 businesses?

5 MR. DUBOW: I don't know the answer
6 to that.

7 COUNCILMAN COHEN: All right.
8 Thank you. Thank you.

9 COUNCIL PRESIDENT VERNA: Thank you.

10 The Chair recognizes Councilman
11 Clarke. Councilman Clarke, your light's

12 on.

13 COUNCILMAN CLARKE: I'm sorry. I'm
14 sorry. Madam President, just briefly, Has
15 the Administration identified any potential
16 cuts, a reduction in the expenditures
17 associated with the five-year plan as we
18 had before us? I believe the document that
19 I'm referencing now is the one that has the
20 out year of \$388 million deficit. Is
21 there...

22 MS. WILKERSON: There are a number
23 of... This was generated off the
24 information shared by Council earlier.
25 There are a number of proposed reductions,

28

1 Whole & Fiscal Stability Hearing - 5/24/04

2 some which the Administration supports.

3 There are substantial problems with
4 a number of the reductions proposed. For
5 example, there is a proposal to eliminate
6 some of the spending in the Inspector --
7 for the Inspector General.

8 We had in the Mayor's Office funding
9 both for Class 100 for the Inspector
10 General but also a \$250,000 Class 200 item.

11 As I testified earlier, that is a
12 duplication of funding that could be

13 eliminated. There are other much larger
14 proposed reductions with which the
15 Administration takes issue.

16 For example, there is an \$11.6
17 million projected reduction in the fringe
18 benefit line item. It would be \$11.6
19 million annually.

20 That, I believe, allows for growth
21 of only 4.5 percent in the City's fringe
22 benefit line item.

23 And what we know is that those
24 fringe benefits tend to be increasing in
25 double digits, as opposed to

29

1 Whole & Fiscal Stability Hearing - 5/24/04
2 four-and-a-half percent. When we got our
3 award during the Firefighters arbitration
4 last year, the fringe benefits grew by 37
5 percent.

6 So, I think that it's unreasonable
7 to expect this kind of savings. It's
8 unreasonable to assume that we're going to
9 have this kind of reduction in our fringe
10 benefit line item.

11 And being wrong about an item like
12 that has profound impact on the City's

13 annual budget. And it compounds, when you
14 look at the five-year financial plan.

15 We also would take issue with a
16 number of the items. For example, there's
17 a savings of \$2 million annually that's
18 proposed from prison overtime. Prison
19 overtime is not one of these items that the
20 City can control unilaterally. Our prison
21 overtime is driven by prison population
22 that we also don't control unilaterally.
23 And so, to assume \$10 million over the
24 five-year plan as a result of prison
25 overtime is probably over -- is probably

30

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2 unrealistic.

3 There's also a proposed \$8.9 million
4 savings in FY '05, as a result of police
5 overtime and delaying of class. We think
6 that part of that might be appropriate
7 because it is likely that we will delay a
8 class. About \$5 million of that we would
9 could support, but the balance of it is
10 probably an unrealistic savings.

11 The Administration has already done
12 a great deal to reduce overtime over the
13 last several years. Last year, I believe,

14 overtime was about \$134 million. We've
15 taken that down to about \$117 million.

16 We have additional savings from
17 overtime projected in the out years. And
18 I'll ask Janice to talk a little bit about
19 how that impacts --

20 COUNCILMAN CLARKE: Before you do
21 that, I'm going to get back. I think you
22 probably misunderstood my question.

23 MS. WILKERSON: I'm sorry.

24 COUNCILMAN CLARKE: And that was all
25 good information, but it wasn't necessarily

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2 what I was seeking at the time.

3 I guess my question centers around
4 the document that shows the cuts in the out
5 years, '06, 64. Then it ramps up to 134.
6 Then it ramps up to 240, then up to 388.

7 MS. WILKERSON: I would --

8 COUNCILMAN CLARKE: What strategy
9 will the Administration use on trying to
10 fill those gaps? Will you focus primarily
11 on reducing expenditures, i.e., layoffs,
12 cuts? Or do you think that it's more
13 prudent to look at the possibility of

14 increasing real estate, i.e., the rate as
15 called for by the budget based real estate
16 system? Or do you...

17 MS. WILKERSON: I think what
18 we're --

19 COUNCILMAN CLARKE: Or is there any
20 assumption that the revenue growth
21 associated with the tax cuts will be as
22 aggressive as this particular schedule, in
23 terms of filling that particular budget
24 gap?

25 MS. WILKERSON: I think what you're

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2 probably going to find is some of both.

3 And I'll ask Janice to comment on that in
4 more detail.

5 MS. DAVIS: I think what we have to
6 bear in mind is that we have to present a
7 balanced five-year plan, balanced over all
8 five of the years.

9 COUNCILMAN CLARKE: Right.

10 MS. DAVIS: To reach the sorts of
11 numbers that we're looking at here, we
12 would have to rely on a combination of very
13 deep cuts, and then in some way allowing
14 the rate of growth in real estate to take

15 place and/or seek a rate increase.

16 MS. WILKERSON: I think what we're
17 finding in a number of the City departments
18 is that we really are down to bare bones.

19 In the proposed amendments to the
20 five-year plan, we don't propose any
21 additional cuts to the Fire Department
22 because we don't think that we can maintain
23 industry standards in our response time if
24 we were to take any additional cuts.

25 We don't propose any cuts to those

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2 parts of government that are revenue
3 generating.

4 And so what we have are increasingly
5 steep cuts being taken from just a few City
6 departments. And I think what we're going
7 to find is that those departments are going
8 to be devastated; and that in order to
9 balance the budget, we'll have to increase
10 revenues.

11 I think it's going -- You know, if
12 we -- If what we do is consistent with what
13 the Reform Commission proposes it will be
14 revenues taken out of property taxes. And

15 if it doesn't -- If that doesn't grow fast
16 enough, we would need to have a rate
17 increase.

18 COUNCILMAN CLARKE: Thank you.
19 Thank you, Madam President.

20 COUNCIL PRESIDENT VERNA: Thank you.
21 The Chair recognizes Councilman
22 Nutter.

23 COUNCILMAN NUTTER: Thank you, Madam
24 Chair.

25 Just a quick question. Miss

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2 Wilkerson, we've heard a fair amount about
3 this concept of the shifting in tax
4 responsibility.

5 Is there any bill presently that
6 changes the real estate property tax rate
7 in front of us?

8 MS. WILKERSON: No.

9 COUNCILMAN NUTTER: Okay. And is
10 there any action by this Council that would
11 automatically result in a quote unquote
12 shift in burden to real estate property
13 taxpayers?

14 MS. WILKERSON: No. I think that's
15 one of the problems. I think that's one of

16 the reasons that, you know, we end up the
17 five-year plan with a \$242 million hole, is
18 because there is not adequate provision
19 being made for the lost revenue from the
20 decrease in the property -- from the
21 decrease in the wage and the business tax.

22 The Tax Reform Commission was not
23 just a tax reduction commission. The Tax
24 Reform Commission, in fact, proposed
25 reforming taxes, shifting the complexion of

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2 Philadelphia's taxes away from the business
3 tax, away from the wage tax, and onto three
4 other taxes. It talked about the amusement
5 tax. It talked about the parking tax. And
6 it talked about the real estate tax.

7 It said clearly that the real estate
8 tax may grow sufficiently, we have to allow
9 it to grow sufficiently in order to make up
10 for the lost revenue of the business tax,
11 but it was very clear --

12 COUNCILMAN NUTTER: Well, real
13 estate taxes have been growing over the
14 past few years, haven't they?

15 MS. WILKERSON: And we've been

16 capping that.

17 I think what the Tax Commission
18 makes clear is that we have to --

19 COUNCILMAN NUTTER: I'm sorry. What
20 do you mean you've been capping it?

21 MS. WILKERSON: That -- That we
22 have --

23 COUNCILMAN NUTTER: You've never
24 capped the real estate tax, except for an
25 action by the BRT which was probably

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2 outside their authority, but that will be a
3 separate discussion. There have been no
4 capping of real estate taxes over the last
5 12 years.

6 MS. WILKERSON: What we have done
7 this year, as you said, we have a cap in
8 place on the assessment increases.

9 But what it makes very clear is that
10 you have to allow these taxes to grow, that
11 in other jurisdictions the real estate tax
12 accounts for up to 40 percent of the -- 40
13 percent of the taxes collected. And we
14 have -- We have about half of that.

15 COUNCILMAN NUTTER: All right. And
16 in those communities are they growing and

17 flourishing or are they losing population
18 and businesses?

19 MS. WILKERSON: I think it's across
20 the board.

21 I think the other thing you have
22 happening in Philadelphia that you don't
23 necessarily have in other jurisdictions is
24 that an unusually high incidence of home
25 ownership among elderly. I believe that

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2 figure is someplace in the neighborhood of
3 76 percent, is what the Action Alliance
4 indicated the other day.

5 We also have an unusually high rate
6 of low income home ownership. And I think
7 that as --

8 COUNCILMAN NUTTER: And we also have
9 an unusually high tax burden, as compared
10 to any other major city in the United
11 States of America, right?

12 MS. WILKERSON: But I mean --

13 COUNCILMAN NUTTER: I mean, we have
14 a number of unusual things here in
15 Philadelphia.

16 MS. WILKERSON: That's right. I

17 think the challenge is, how do we close the
18 \$242 million gap in order to have a
19 balanced five-year plan, which is what --

20 COUNCILMAN NUTTER: I understand.

21 MS. WILKERSON: -- the
22 Administration has to prevent.

23 COUNCILMAN NUTTER: I understand.
24 What's the impact of the proposed bills in
25 front of us for the upcoming fiscal year?

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2 MS. WILKERSON: The Administration
3 has taken a look at Bills 9, 10 and 12.
4 And the cost in FY '05 is \$11.77 million.

5 COUNCILMAN NUTTER: Okay. And the
6 current budget in front of us is how much?

7 MS. WILKERSON: The current budget
8 in front of us is in excess of \$3 billion.

9 COUNCILMAN NUTTER: Okay. All
10 right.

11 And there have been other decisions
12 made recently with regard to... which had
13 nothing to do with this City Council, with
14 regard to PGW and the proposed removal of
15 the Water Revenue Reserve Fund that have
16 already caused financial problems; is that
17 correct?

18 MS. WILKERSON: Yes.

19 COUNCILMAN NUTTER: Okay. All
20 right. Thank you.

21 Thank you, Madam Chair.

22 COUNCIL PRESIDENT VERNA: You're
23 welcome.

24 Are there any other questions or
25 comments from members of the Committee of

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2 our witnesses?

3 The Chair recognizes Councilwoman
4 Brown.

5 COUNCILWOMAN BROWN: Thank you,
6 Madam Chair.

7 Clarity of the record, Chief of
8 Staff Wilkerson.

9 You just stated in your testimony
10 \$284 million gap over the five-year plan?

11 MS. WILKERSON: Yes. \$242 million.
12 These numbers are based on the numbers City
13 Council presented earlier this evening.

14 There are a number of items that
15 are -- that are proposed as either
16 reductions or that are proposed as
17 reductions with which we take issue.

18 But just based -- Assuming all those
19 things are feasible, you still end up with
20 a five-year plan that is \$242 million short
21 of being balanced.

22 COUNCILWOMAN BROWN: And you're
23 saying these are the figures -- you arrived
24 at that figure because of the information
25 provided by Council versus the figure you

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2 state in your five-year plan, which is \$834
3 million. That's what's stipulated here in
4 the five-year plan on Page 9.

5 MR. DUBOW: Yeah. There are two
6 different things. The 834 was actually the
7 five-year plan projected deficit that we
8 looked at when we started the '04 to '08
9 plan.

10 We're talking about now, we say \$243
11 million is, there were a set of proposals
12 that are contained in the bills that you
13 will be voting on tonight, that had some
14 revenue measures and expenditure measures.

15 And when we ran those through a
16 five-year projection, they came up with the
17 \$243 million gap. So... And that's where
18 we are, based on the bills that you're

19 looking at tonight.

20 COUNCILWOMAN BROWN: All right.

21 Thank you.

22 COUNCILMAN GOODE: Point of

23 information.

24 COUNCIL PRESIDENT VERNA: Chair

25 recognizes Councilman Goode.

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2 COUNCILMAN GOODE: Thank you, Madam

3 President.

4 So, Mr. Dubow, you're saying last
5 year's five-year plan you identified the
6 \$834 million deficit, but because of the
7 proposals before this Council right now you
8 identify a \$242 million deficit?

9 MR. DUBOW: Well, we had a plan that
10 before, when we started our plan process
11 last year, it had a gap of \$834 million.
12 But before we brought it to Council, we
13 took actions to bring it into balance. But
14 what I'm saying --

15 COUNCILMAN GOODE: Clearly --
16 Clearly the \$834 figure was astronomical.

17 MR. DUBOW: Yes, it was.

18 COUNCILMAN GOODE: Particularly

19 compared to \$242 million figure that also
20 provides tax relief that may provide
21 economic growth.

22 MR. DUBOW: But the \$834 million
23 number was at the beginning of a process.
24 And we had time. We went through and
25 figured out how to balance it. We're

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2 talking about \$243 million.

3 COUNCILMAN GOODE: I might suggest
4 that a \$242 million figure is the beginning
5 of a process.

6 Thank you, Madam President.

7 MR. DUBOW: Well, we're only... I
8 would disagree because we're supposed to
9 have a budget passed by May 31st or we need
10 to have appropriation power by July 1st.

11 COUNCILMAN GOODE: We're referring
12 to the deficit of the five-year plan. And
13 we were comparing last year's identified
14 deficit with the deficit identified as a
15 result of the proposal before City Council
16 right now.

17 And your answer was that last year
18 \$834 million was the beginning of a
19 process.

20 So while it was astronomical, we
21 worked it out.

22 And now you're suggesting that, with
23 the prospect of tax reform, the \$242
24 million deficit in the five-year plan, it
25 can't be worked out.

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2 MR. DUBOW: No. What I'm saying is
3 that we actually presented a set of
4 ordinances and proposals that showed that
5 it was balanced.

6 And now you're being asked to vote
7 on a set of ordinances that don't show how
8 it will be balanced.

9 COUNCILMAN GOODE: So you're
10 suggesting that last year's five-year plan
11 you balanced an \$834 million deficit?

12 MR. DUBOW: That's right, before we
13 brought any ordinances to Council.

14 COUNCILMAN GOODE: But came to
15 Council this year with a \$227 million
16 deficit?

17 MR. DUBOW: No. We came to Council
18 with a balanced plan.

19 COUNCILMAN GOODE: A balanced plan,

20 but a \$277 million deficit.

21 MR. DUBOW: No. We erased the \$227
22 million deficit before we brought any
23 ordinances to Council.

24 COUNCILMAN GOODE: So the \$834
25 million deficit identified last year was

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2 not that much larger in your mind than \$242
3 million, and you were able to resolve a
4 \$227 million this year. I'm really not
5 understanding clearly your math.

6 MR. DUBOW: Well, no, it's not the
7 math.

8 COUNCILMAN GOODE: Part of the
9 reason we identified a \$227 million deficit
10 in next year's budget, potentially, was
11 because of flat revenue growth.

12 So if you identified 834 last year,
13 you still experienced a flat revenue
14 growth. And you only expect a \$242 million
15 deficit over five years, through enacting
16 comprehensive tax reform that doesn't seem
17 like a large number.

18 But Thank you, Madam President.

19 COUNCIL PRESIDENT VERNA: Thank you.

20 Are there any other questions or

21 comments from members of the Committee?

22 (No response.)

23 COUNCIL PRESIDENT VERNA: Seeing
24 none... The Chair recognizes Councilman
25 Cohen.

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2 COUNCILMAN COHEN: I'm wondering
3 whether the City saw the piece of
4 literature put out by the Committee for
5 Youth and Children.

6 Did you see this yellow card? Maybe
7 Councilman DiCicco would turn it over to
8 Joyce Wilkerson.

9 I'd appreciate if you would read the
10 items and tell me how people do you think
11 react to something like that?

12 I'm not saying that you're going to
13 agree with what you read, but please read
14 it for a minute because I have questions to
15 ask you about it.

16 MS. WILKERSON: In the boxes or just
17 the entire...

18 COUNCILMAN COHEN: The entire thing.
19 It's very brief.

20 MS. WILKERSON: Okay.

22 children and youth, and why it's so bad for
23 the City to be doing it. Aren't we
24 shortchanging our kids?

25 MS. WILKERSON: I think what this

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2 Administration has attempted to do is to
3 strike a balance.

4 I think the commitment we've made to
5 children and neighborhoods is probably
6 unprecedented.

7 We have the NTI initiative. We have
8 funds going into increase after school.
9 We've -- We've, with the support of City
10 Council, increased funding for public
11 education, a way that really is
12 unprecedented.

13 At the same time, we understand that
14 there is a need for tax reform. And so, in
15 the budget transmit by the Mayor, budget
16 and five-year plan, there's over \$400
17 million in tax reform.

18 But there has to be enough in order
19 for us to maintain quality services. We've
20 got to be prepared to invest in areas like
21 northern -- North Delaware River, Penn's

22 Landing.

23 We have these wonderful assets in
24 the City that we have to be positioned to
25 develop. And it takes money to do that. I

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2 think we -- you know, we have made
3 difficult decisions, but have tried to
4 strike a balance that allows us to address
5 both services, tax reform, and stimulating
6 the economy moving forward.

7 COUNCILMAN COHEN: And you're not
8 concerned at all that this indicates an
9 imbalance in the City's distributions of
10 goods and services?

11 You talked about what you've done in
12 Neighborhood Transformation.

13 (Fire alarm sounds.)

14 (30-minute recess.)

15 COUNCIL PRESIDENT VERNA: Back to
16 business now.

17 COUNCIL PRESIDENT VERNA: We're back
18 in session, please.

19 The Chair recognizes Councilwoman
20 Miller.

21 COUNCILWOMAN MILLER: Thank you,
22 Madam President. I do have one question of

23 the Administration.

24 COUNCIL PRESIDENT VERNA: Okay.

25 Miss Wilkerson is approaching the table.

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2 COUNCILWOMAN MILLER: Hi. Good

3 evening, Miss Wilkerson. I have a question
4 that's just been bugging me a little bit.

5 With the tax reform proposals,
6 particularly those that eliminate the wage
7 and the business tax, in the five-year plan
8 it says that 62 percent of our general
9 revenue -- General Fund revenues come by
10 way of taxes.

11 Has anyone given you any tangible
12 suggestions on the alternative ways that we
13 can find money? Because people keep
14 saying, oh, there's money; you can find
15 money.

16 Sunday I was looking at issues in --
17 No; Inside Story. And, of course, they
18 were discussing the tax reform proposals.

19 And someone on that show also said,
20 oh, it's okay to cut it; they'll find
21 monies.

22 And I guess what makes me nervous is

23 that my District is a District that really
24 needs core services. And I don't want to
25 see in Philadelphia that we shift the

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2 burden of taxes from one group to another
3 group.

4 And I do believe that we... And
5 I've said this for a couple weeks now, that
6 I don't believe that we've had enough time
7 to really evaluate and assess the... Well,
8 we've certainly had enough time to evaluate
9 or to read the Tax Reform Commission's
10 report and the good breakdown that they
11 gave us.

12 But I don't think we've had enough
13 time to really look at how it actually
14 impacts our ability to operate the City and
15 keep the service levels where it needs to
16 be.

17 However, maybe I don't know
18 everything. And I just wanted to know if
19 anyone has given you or anyone from the
20 Administration real suggestions on
21 alternative ways that we can generate
22 revenue in the City without the key taxes.

23 MS. WILKERSON: Yeah. The Tax

24 Reform Commission had a number of proposals
25 in it. And many of them have been

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2 incorporated into our budget in our
3 five-year plan.

4 For example, they had a whole host
5 of fees that we ought to take a look at
6 increasing. And some of the legislation
7 before you today relates to those fees.

8 There were proposals to improve
9 enforcement. We have for years been
10 working with L & I. L & I now has more
11 inspectors. They've been cross-trained.
12 They have the capacity to bring in
13 additional fees.

14 We have... You know, there were
15 proposals that we sell the gas company.
16 There were proposals, you know, that the
17 Airport be sold.

18 So we've taken a look at all of
19 these proposals. We've got a number of
20 proposals incorporated into the five-year
21 plan.

22 Naming rights is something that the
23 Administration actually pursued, and it

24 became a part of the City's five-year plan
25 last year.

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2 So we've done -- we've done most of
3 if not all of the proposals that are
4 feasible.

5 And we've also had a number of
6 initiatives by the Administration that take
7 a look at restructuring how we do services.

8 And so we've got the administrative
9 cluster initiative, that is reducing the --
10 you know, the administrative services
11 throughout the City, so that each
12 department no longer has its own back --
13 back operation -- back room operation.

14 It's done in -- for clusters of
15 departments. And we've saved about... We
16 project to save about 400 positions, once
17 we complete, fully complete that
18 initiative. So, we've been working
19 diligently on a number of the reform
20 measures.

21 And Phil, you had wanted to...

22 MR. GOLDSMITH: Yeah. I would like
23 to say, if I may, as Chief Operating
24 Officer of the City, and also as the City's

25 Chief Emergency Officer... I've been

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2 silent tonight, but I can't remain silent
3 because I think I have an obligation.

4 And that alarm going off, I think,
5 sort of underscored some of the things I
6 want to say.

7 As I look at... There's a hidden
8 tax. And a hidden tax is what this is
9 going to do to our services.

10 And to get to Councilman Cohen's
11 question of the shifting from one group to
12 another, there is a shifting. There's a
13 shifting of services that are needed and
14 required and desired by the citizens of
15 this City.

16 They are not necessarily the same
17 people that will benefit from a wage tax
18 reduction or a business tax reduction.

19 And that's not to say those
20 reductions shouldn't happen. But they have
21 to be put in measure of the consequences.

22 I've looked at this budget. I have
23 many, many years of extensive management
24 experience, both the private and public

25 sector. I've been a consultant. I know

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2 the difference between consulting reports
3 and reality.

4 I know how difficult it is to do
5 things in the public sector, much more
6 difficult than the private sector because
7 of our union rules and our Civil Service
8 rules.

9 We are coming dangerously close to
10 impacting our public safety core services
11 in the City.

12 It may not be someone that wants to
13 visit the Art Museum on a Sunday or
14 necessarily care about bulk trash pick-up
15 on a Wednesday, because they may not live
16 in the City.

17 But I will tell you, not as a
18 threat, but as a reality, because I think
19 we have to talk about reality, the
20 consequences of doing a budget that will
21 not allow us to do the basic core
22 services -- They may not care about snow
23 cleaning in every street in the City, if
24 you don't live in the City.

25 But I don't think we can just in a

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2 vacuum talk about taxes. I think we have
3 to talk about our services. And I find it
4 ironical that in many places in this great
5 City where many of these Council people
6 are, where we have exciting things going
7 on, whether it be Old City District or
8 whether it be in Manyunk, that require
9 extra police protection.

10 And what we are doing is reducing
11 overtime, we're reducing our staffing
12 levels in the Police Department, we are
13 affecting major core services.

14 And I really ask this Council to
15 think long and hard about the consequences
16 of what we're doing because I for one am
17 very concerned about how we do this.

18 You take the Fleet Management
19 Department. The Fleet Management
20 Department has lost 20 percent of its staff
21 in four years.

22 The acquisition budget has gone from
23 \$14 million, and we're going to take it
24 down even more to \$7.

25 We had a consultant come in here and

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2 say that to just stay on our normal
3 maintenance schedules, we have to be at
4 significantly higher than that.

5 Now, we can do it with less than
6 what that consultant said. But we have to
7 remember, we're talking about maintenance
8 and upkeep, not of personal sedans, none of
9 our personal vehicles.

10 We are talking about the upkeep and
11 the maintenance of our police vehicles, our
12 EMS units, our trash compactors, the
13 vehicles that allow this City to get the
14 job done.

15 And that's just one example of what
16 I think that we're walking through a
17 precipice. And I don't mean to over blow
18 because I think I can walk around this City
19 like everyone and say, boy, why are we
20 doing this and why are we doing that.

21 But we're getting real close to the
22 edge, and I just want everyone -- I could
23 not leave this chamber's tonight without
24 expressing myself, because ultimately I
25 have the responsibility to provide City

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2 services and to provide emergency services.

3 I'd ask you, how many times do you
4 think President Bush and John Kerry are
5 going to be coming to the City in the next
6 four months? That's police protection.
7 And yet, we are just willy-nilly cutting
8 police overtime.

9 We have a District Attorney's Office
10 that's getting increased money and has much
11 to do with our court overtime, more to do
12 with our overtime than the Police
13 Department.

14 So, in our rush to try to improve
15 the business economy of this City, and as a
16 former business person, all of which I
17 applaud, I say we also have to be looking
18 at what it's going to do to our residents
19 day in and day out.

20 Thank you.

21 COUNCIL PRESIDENT VERNA: Thank you.

22 The Chair recognizes Councilwoman
23 Brown.

24 COUNCILWOMAN BROWN: Thank you,
25 Madam President.

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2 But actually, Managing Director
3 Goldsmith's answer goes exactly to the
4 question I wanted to pose, which has been
5 touched by Councilwoman Donna Reed Miller.

6 We've heard that arts and culture,
7 recreation centers are not core services.
8 All of us have expressed our discontent
9 with that prospect.

10 And I was curious to know, given the
11 existing tax cuts already in place, what
12 core services, as you define them, Managing
13 Director, are already being impacted.

14 And you've mentioned Fleet, above
15 the 10 percent level, currently at 20
16 percent level.

17 MR. GOLDSMITH: Well, I think our
18 Streets department, which I think is the
19 one department that impacts each and every
20 Philadelphian, is going to be cut.

21 Our Health Department is going to be
22 hurt.

23 I mean, I think we just have to go
24 across -- across the board.

25 We're already doing something with

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2 the Fire Department, which I think makes
3 sense because we're adding -- we're adding
4 where needed, and we're talking away where
5 we think that there's less need. That's
6 the type of stuff we should be doing.

7 But to force us in a position of an
8 across-the-court -- across-the-board cut to
9 balance a budget, based on a hope and a
10 dream, I think is a mistake.

11 And I must say when I hear about
12 business growth, and so forth, I have to go
13 back to a previous job I had, which was
14 former Chief Executive Officer of the
15 Philadelphia School District.

16 And I remember all the commotion
17 about bringing Edison in here and
18 privatizing. And I met with those business
19 communities. Well, they didn't have a
20 plan. They didn't know what they were
21 doing.

22 But the business community said,
23 well, it can't get worse. It can't get
24 worse than what we have. Let's just throw
25 it over to this company that's been

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2 untested, untried.

3 And I think we're about ready to do
4 the same thing. We are going on untested,
5 untried domain here, on the hopes that it's
6 going to bring growth and it's going to
7 bring this...

8 And I say, what I think we need is a
9 balanced approach. That's what we did at
10 the School District. We didn't privatize
11 the whole thing.

12 And what we got instead was Paul
13 Vallas, and we got some EMOs in there, and
14 it was a balanced approach.

15 And that's what I think we need
16 here, a balanced approach. And I think
17 that's what --

18 COUNCIL PRESIDENT VERNA: I'm sorry.

19 The Chair recognizes Councilman
20 Goode.

21 COUNCILMAN GOODE: Thank you for
22 your testimony.

23 Would you characterize your
24 statements at the point of discussion of
25 Edison coming in, and the talk about a

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2 state takeover, state partnership, as
3 defending the status quo, then?

4 MR. GOLDSMITH: I'm sorry.

5 COUNCILMAN GOODE: Would you
6 characterize your statements at the time,
7 as former C.E.O. of the School District,
8 that Edison was coming in or there was a
9 proposed state takeover, state partnership,
10 would you characterize your statements as
11 defending the status quo at that point?

12 MR. GOLDSMITH: I did not feel I was
13 defending the status quo at all. No, not
14 at all.

15 COUNCILMAN GOODE: With all due
16 respect, I believe that the statements at
17 the time were that we were investing new
18 money, we were turning the system around,
19 that things were on the right track. And
20 that was not the case.

21 Because there was a state
22 partnership, because there was a School
23 Reform Commission, because it was new
24 leadership in Paul Vallas, there's a
25 difference.

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2 MR. GOLDSMITH: Well, I think that
3 there is a difference. And I think the
4 difference is because we did not go to the
5 extreme.

6 And the extreme was, if you recall
7 at the beginning, it was to bring in this
8 private company that had never been tested
9 or never been tried, and to take over the
10 whole issue --

11 COUNCILMAN GOODE: This issue was
12 not just Edison. The issue was also
13 whether you're going to keep the status
14 quo.

15 MR. GOLDSMITH: Well...

16 COUNCILMAN GOODE: And we had to get
17 rid of the status quo in order to change
18 the School District.

19 And we have to change the status quo
20 now.

21 Thank you, Madam President.

22 MR. GOLDSMITH: I think we do have
23 to change the status quo. And I think some
24 of the tax reductions we have and
25 maintenance of core services, some of the

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2 other things we're doing in the City will
3 do that.

4 But I would like to at least see
5 some empirical evidence, that before we go
6 through this wholesale, you know, reduction
7 of services or whatever it's going to take
8 to do this, be some empirical evidence that
9 this type of, you know, tax reduction
10 process is going to bear fruit in the near
11 future.

12 I've never seen any empirical
13 evidence like that. It hasn't worked on a
14 national level. And I don't know where it
15 does work.

16 And I think that to say that it's
17 the tax structure that's driving people
18 away from Philadelphia, I think is an
19 overly simplistic, unproven type thing.
20 But that's my own personal opinion.

21 COUNCIL PRESIDENT VERNA: Thank you.

22 The Chair recognizes Councilman
23 Mariano.

24 COUNCILMAN MARIANO: Madam
25 President.

2 This is for whoever thinks they can
3 answer this one. What happens with the
4 City workers' raises? Are they
5 automatically knocked out of the box now,
6 the 47, 33?

7 MS. WILKERSON: There are no raises
8 provided in the budget or the five-year
9 plan.

10 This... You know, normally we would
11 end up trying to find efficiencies in order
12 to fund a contract. I think it's unlikely
13 that we will get through negotiations with
14 all zeros.

15 It's clear that the arbitrator's not
16 going to award a union all zeros and no
17 change to the health and welfare.

18 I think we are going to be back here
19 within the next several weeks, talking
20 about, you know, how are we going to close
21 the gap as a result of the labor contracts.

22 PICA has already indicated that, you
23 know, that if it doesn't have a budget in a
24 timely way, that we'll have to amend the
25 financial plan even before the contract

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2 negotiations are concluded, to reflect what

3 it is we have to put out, in order to reach
4 agreement with the unions.

5 COUNCILMAN MARIANO: And that's July
6 1, the contracts?

7 MS. WILKERSON: July 1. We're
8 already in arbitration with the F.O.P.
9 That will conclude probably next month some
10 time. And about 30 days after that we'll
11 have an award from the arbitration panel.

12 When the Firefighters had their
13 arbitration, the arbitrator awarded a 37
14 percent increase in the health and welfare
15 benefits.

16 And I think that we're going to find
17 ourselves right back here, grappling with
18 numbers, that are even more distressing
19 than the deficit, the \$242 million deficit
20 we're looking at now.

21 COUNCILMAN MARIANO: So if District
22 Council 33 is on strike, that means the
23 trash doesn't get picked up about July --
24 when my birthday rolls around, about July
25 20th. And then, the rec centers are going

3 going to forecast doom and gloom.

4 The policemen will still be out on
5 the street because they have binding
6 arbitration. The Firefighters are July
7 1st, too.

8 MS. WILKERSON: Within 14 months we
9 will have negotiated with all of the
10 unions.

11 COUNCILMAN MARIANO: That's a
12 good -- This is going to be a fun summer
13 around here, I would suspect, if the basic
14 services aren't provided for by the City.

15 And then we worry about eroding the
16 tax base. If that goes on for about two
17 weeks or a month, we'll see how fast the
18 tax base erodes.

19 Thank you.

20 COUNCIL PRESIDENT VERNA: Thank you.
21 The Chair recognizes Councilman Cohen.

22 COUNCILMAN COHEN: Thank you, Madam
23 Chair.

24 Mr. Goldsmith, you make a very good
25 effort to explain the circumstances of the

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2 City and your good feeling about the need
3 to provide services.

4 But really, your position would be
5 so much stronger had it not been for the
6 fact that the Mayor, on his own, without
7 consultation with City Council, decided on
8 the program of Safe Streets, on the loans
9 to the schools, and NTI, without any
10 discussion with City Council.

11 How do we know now that those
12 expenditures were the wise way to go?

13 If he had involved City Council, it
14 may well have been we could have had the
15 same kind of programs but with a much less
16 costly base to them. We would have helped
17 finance them.

18 But instead, the Mayor decided, this
19 is the direction we should go, and he did
20 it on his own.

21 Then you come and you talk to us
22 about you hate to see us in this position.

23 Well, if the money hadn't gone to...
24 We still don't know where the money came
25 from. I haven't the slightest idea where

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2 Safe Streets money came from. Do you know
3 where?

4 MR. GOLDSMITH: Safe Street money
5 came from the budget.

6 COUNCILMAN COHEN: From the General
7 Fund.

8 MR. GOLDSMITH: That's correct.

9 COUNCILMAN COHEN: Well, I thought
10 under the Home Rule Charter, we had
11 something to do with that.

12 But we didn't in real life. We
13 didn't know where it was coming from.
14 Nobody discussed it with us.

15 So let me just say to you, we
16 appreciate what you've done all these
17 years, and the spirit of independence and
18 integrity you've shown over the years.

19 But every bit of our work would be
20 so much easier if there were full
21 cooperation, instead of the Mayor going his
22 way and compelling City Council to deal
23 with the after effect.

24 Thank you, Madam President.

25 MR. GOLDSMITH: Councilman, I

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2 understand your point. And I think... I
3 guess what I would say is, I think we have
4 to look to the future, not the past.

5 And what happened, and I guess what
6 I'm trying to say is that we all take a
7 sobering look at the present and the
8 future, the implications, I mean.

9 I think you always have to ask what
10 are the implication of what we're doing.
11 And I would hate to think that we were
12 going to do something because we didn't
13 like what the Mayor did last year or two
14 years ago or three years ago.

15 I think we have to look to the
16 future for the people of this City and work
17 cooperatively.

18 But I'm just concerned. And I have
19 my own perspective -- because I'm the Chief
20 Operating Officer -- about how we handle
21 services in the City.

22 And I think we all agree in this
23 room we wish we could do better. I can
24 guarantee you one thing: We can't do
25 better if we have less and less. And

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2 that's what concerns me.

3 We live in a very interesting age
4 right now. And we never know when we're

5 going to be called for any type of thing.

6 And I just would say, you know, we
7 can keep on looking backwards at what the
8 Mayor did or what the Mayor didn't do.

9 I think we have to look forward and
10 make sure we're all doing the right thing
11 together. But that's my own feeling on it.

12 COUNCIL PRESIDENT VERNA: Thank you.

13 The Chair recognizes Councilman
14 Nutter.

15 COUNCILMAN NUTTER: Thank you, Madam
16 Chair. I'll be real quick.

17 Mr. Goldsmith, two things you said
18 kind of piqued my interest.

19 First, I was somewhat surprised when
20 you said early in your commentary that the
21 majority of the benefit of the main tax
22 bills would not benefit Philadelphians,
23 that they would benefit some other group of
24 people.

25 Under what set of circumstances

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2 would a cut in the resident wage tax not
3 benefit most Philadelphians or cut in the
4 business privilege tax paid by those same
5 businesses that may assist them in growing

6 or expanding their business? What would
7 possess you to say that these cuts would
8 not benefit Philadelphians?

9 MR. GOLDSMITH: Well, if I said they
10 didn't -- they wouldn't benefit
11 Philadelphians, I did not mean to say that.
12 Of course they would benefit
13 Philadelphians.

14 What I was saying, that you have to
15 look -- in addition to the benefits of the
16 tax reductions, you also have to see who
17 uses City services.

18 I think by and large, while it's
19 true that people that come into our great
20 City --

21 COUNCILMAN NUTTER: They're the same
22 people that are paying the taxes, right?

23 MR. GOLDSMITH: They're paying some
24 of the taxes. They don't necessarily pay
25 all of the taxes. So I think that there

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2 are certain services that our residents
3 depend on here, that a visitor would not
4 depend on, only because they don't require
5 their trash to be picked up in Philadelphia

6 or they may not be as concerned about
7 neighborhood police protection or snow
8 removal or whatever.

9 COUNCILMAN NUTTER: No; I got that.

10 MR. GOLDSMITH: Right. Okay.

11 COUNCILMAN NUTTER: So you're
12 saying -- If I heard what you said
13 correctly, you're saying that that's not
14 what you meant.

15 MR. GOLDSMITH: I did not mean to
16 say that there's no benefit to the
17 taxpayers...

18 COUNCILMAN NUTTER: Okay.

19 MR. GOLDSMITH: ...for tax
20 reduction. I would certainly benefit from
21 it.

22 COUNCILMAN NUTTER: All right.

23 And then the second was, in response
24 to Councilman Goode, you said that you
25 don't see any empirical evidence to, you

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2 know, do a variety of positive things that
3 many of us are trying to lay out here.

4 What is the empirical evidence that
5 what we're doing is working to our
6 advantage?

7 MR. GOLDSMITH: Well, I...

8 COUNCILMAN NUTTER: And before you
9 respond to that...

10 MR. GOLDSMITH: Sure.

11 COUNCILMAN NUTTER: I mean, you may
12 not have been up here a couple weeks ago.
13 There's an article, April 2004 from
14 Treasury and Risk Management Magazine.

15 And it's just a little box. And it
16 says, thinking about where to set up shop?
17 On the whole, you wouldn't rather be in
18 Philadelphia after all.

19 Philadelphia is listed as the most
20 expensive City in a 315 City survey on
21 business cost, taxes, fees, and incentives,
22 higher than Cincinnati, New York, Columbus,
23 San Francisco, Nashville-Davidson, Newark,
24 Minneapolis, Indianapolis and Boston.

25 Now, what is it that's working so

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2 well for us under the present plan? What's
3 the empirical evidence that it's helping
4 us?

5 MR. GOLDSMITH: Well, I think the...

6 Number one, I -- I -- I used to be in

7 business and ran a \$7 billion line of
8 business for a bank. And I was very much
9 aware how corporations go about making
10 their decisions as to where to locate and
11 where not to relocate.

12 And I will tell you that the tax
13 structure is one of many reasons, one of
14 many reasons. It's not the only reason.

15 COUNCILMAN NUTTER: That's one of
16 the reasons that we don't have many of the
17 banks that we had here before probably.

18 MR. GOLDSMITH: No. I disagree. I
19 think the reason that we don't have many of
20 the banks... When I started in banking in
21 1982, we had 12 banks headquartered in this
22 City.

23 COUNCILMAN NUTTER: Right. How many
24 do we have now?

25 MR. GOLDSMITH: I don't think we

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2 have any headquartered here.

3 COUNCILMAN NUTTER: Okay.

4 MR. GOLDSMITH: And I think the
5 reasons are far more complicated, which I'd
6 be glad to go into, but I don't think you
7 want to listen to me tonight at this hour.

8 COUNCILMAN NUTTER: Hey.

9 MR. GOLDSMITH: I think they're far
10 more complicated. And I think all these
11 issues --

12 COUNCILMAN NUTTER: And I kind of
13 bought the chair for the evening, so I
14 mean, if you'd like to go. But I think
15 many of them are probably in Delaware.

16 MR. GOLDSMITH: I would tell you --
17 I would tell you a lot of the banks left to
18 Delaware because of the interest --

19 COUNCILMAN NUTTER: Tax problem.

20 MR. GOLDSMITH: -- the interest rate
21 ceilings that we had on credit cards. And
22 a lot of the banks --

23 COUNCILMAN NUTTER: Yeah.

24 MR. GOLDSMITH: -- fled to Delaware
25 because they could charge more. Had

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2 nothing to do with the tax structure here.
3 It was where they could make more money.

4 COUNCILMAN NUTTER: Well, it was a
5 Pennsylvania issue.

6 MR. GOLDSMITH: Exactly.

7 COUNCILMAN NUTTER: I'm sure they

8 probably weren't thrilled about the overall
9 tax structure here. But, okay. I'm just
10 trying to understand. I mean, you talked
11 about empirical evidence.

12 MR. GOLDSMITH: Right.

13 COUNCILMAN NUTTER: You tell me
14 how --

15 MR. GOLDSMITH: Well, the
16 empirical -- the empirical evidence I see,
17 I mean from where I go around, I see, you
18 know, a lot of activity going on in this
19 City. I see a lot of -- I just read
20 statistics the other day from our L & I
21 from construction permits. They're up 411
22 percent.

23 COUNCILMAN NUTTER: I'm sorry. The
24 what's up?

25 MR. GOLDSMITH: Our construction

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2 permits.

3 COUNCILMAN NUTTER: Okay.

4 MR. GOLDSMITH: There's a lot more
5 construction going on in this City.

6 COUNCILMAN NUTTER: Well...

7 MR. GOLDSMITH: I think this City --
8 this City is coming alive. It's not to say

9 we can't do more.

10 COUNCILMAN NUTTER: Right.

11 MR. GOLDSMITH: But when I look at
12 the empirical evidence of -- of -- of
13 building permits that were issued in 2003
14 versus what it was, I think, in 1999 or
15 1998, they've gone up significantly.

16 COUNCILMAN NUTTER: Okay.

17 MR. GOLDSMITH: So that's some of
18 the evidence I see in just walking around
19 and seeing what's going on.

20 COUNCILMAN NUTTER: Right. But
21 population wouldn't be one of those
22 empirical --

23 MR. GOLDSMITH: I think population
24 is -- I think population is -- is -- is --
25 is one of the factors. I always get a kick

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2 out of it when people say, compare us to
3 Phoenix and Houston, and so forth.

4 If we want to annex Bala Cynwyd or
5 Lower Merion, we'd just be right where
6 Phoenix and Houston are. And that's the
7 way a lot of cities have grown.

8 And most of the cities in the

9 Northeast are losing population.

10 COUNCILMAN NUTTER: I don't think we
11 had them and let them go to lose
12 population. We used to have a couple
13 million that were are still within the same
14 boundaries that the City has probably had,
15 I don't know, for a little while.

16 So, I mean, it's not like we shed
17 townships or hamlets. We've had the same
18 boundaries. People left. Right?

19 MR. GOLDSMITH: That's correct.

20 COUNCILMAN NUTTER: Okay.

21 MR. GOLDSMITH: And people come.

22 COUNCILMAN NUTTER: All right. And
23 they go, and they come, and they go. And
24 the net is, they go. Right?

25 VOICE IN THE AUDIENCE: Where are we

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2 going?

3 COUNCILMAN NUTTER (singing): Where
4 do we go from here?

5 I'm done. Thank you.

6 MR. GOLDSMITH: Thank you.

7 COUNCIL PRESIDENT VERNA: Thank you.

8 The Chair recognizes Councilman
9 DiCicco.

10 COUNCILMAN DiCICCO: Thank you,
11 Madam President.

12 I actually had some of the same
13 questions that my colleague, Councilman
14 Nutter, had about the empirical evidence.

15 I mean, you're right, Mr. Goldsmith.
16 No one has -- can predict what will happen
17 if any of these bills or all of these tax
18 package bills pass.

19 But the evidence is there, obviously
20 that we continue to lose population. We
21 continue to have business disinvestment.

22 And with that goes loss of jobs.
23 I've asked this question, and I've made
24 comments about this over the last couple
25 weeks. If not now, when?

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2 The five-year plan calls for
3 reductions going forward over the next five
4 years.

5 Because we're losing jobs, we're
6 losing revenue. So, the likelihood is that
7 cuts will have to be made going forward.
8 None of us like to see that.

9 So the question again becomes, if

10 not now, then when? We can't -- We're
11 going to hold off until the economy is well
12 and the City is thriving, and then start
13 looking to make cuts? That day may never
14 come either. And none of us can predict
15 that.

16 So again, as I said in the past, I
17 think that we just need to look to do
18 something dramatic. Hopefully it works
19 out. And it is a hope. And I'll be the
20 first to admit that.

21 And if things don't turn out the way
22 we expected them to do, to turn out, we can
23 always adjust and mend, make some
24 corrections to the tax bills that we have
25 before us that we're hopefully going to

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2 vote and pass.

3 I just don't see any way out of
4 this, other than to try something very
5 dramatic.

6 And again, I'll be the first to say
7 that there is no empirical evidence that
8 will happen.

9 But it's interesting, when you just
10 talked about the number of permits that

11 have been pulled over the last four or five
12 years. I assume, therefore, construction
13 and residential development, multi-family,
14 single family, stuff like that.

15 MR. GOLDSMITH: Yes.

16 COUNCILMAN DiCICCO: Did anyone stop
17 to think that maybe that's occurring
18 because of the ten-year abatement?

19 MR. GOLDSMITH: That may be.

20 COUNCILMAN DiCICCO: And the point
21 I'm trying to make is, but for the
22 abatement which was basically a tax
23 reduction, credit, call it what you want,
24 we may not have seen the number of permits
25 that have been pulled over the last four or

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2 five years.

3 MR. GOLDSMITH: That's --

4 COUNCILMAN DiCICCO: So in a
5 sense -- And I'm not being argumentative
6 with you...

7 MR. GOLDSMITH: That's all right.

8 COUNCILMAN DiCICCO: ...that to me
9 is some empirical evidence that when you
10 offer incentives and you reduce taxation on

11 individuals or businesses, you generally --
12 And again, it's all hypothetical.
13 Generally you get a reinvestment that
14 offsets the cost of those -- of doing the
15 business or offset the cost of whatever the
16 losses were, in terms of revenue.

17 So, I think what we've all been
18 doing here is -- most of us, at least, have
19 been looking at the negative side of this.

20 No one has talked about -- And
21 again, it's the guesswork, it's the hope,
22 that if we do these bills, that maybe
23 there's an uptick in the job growth and
24 business growth in the City which
25 translates into additional revenues.

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2 And again, I don't have that answer.
3 None of us have the answer on either side
4 of this, except for the historical
5 statistics that for the last three, four
6 decades, all we continue to lose is jobs,
7 and it's all because of the antiquated tax
8 system that we have, which has been
9 discussed not only in this Council for as
10 long as I can remember, and before I came
11 here, and God knows how long. But it's

12 recognized across this country as a bad
13 place to do business.

14 And you know, I'm not asking for an
15 answer from you. It's a statement, a
16 comment. But the empirical evidence is
17 that to continue on the path we've been,
18 the job loss will continue.

19 And so my answer to you is, give me
20 the empirical evidence is anyone going to
21 prove that we're going to grow.

22 Well, I can't do that, but I can
23 certainly tell you that if we don't do
24 something, we're going to continue to lose.

25 Thank you.

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2 Thank you, Madam President.

3 COUNCIL PRESIDENT VERNA: Thank you.

4 There are any other questions or
5 comments of our witnesses?

6 (No response.)

7 COUNCIL PRESIDENT VERNA: Seeing
8 none, are there any other witnesses to
9 testify?

10 (No response.)

11 COUNCIL PRESIDENT VERNA: This will

12 conclude our public hearing.

13 (Public hearing concluded, 12:45

14 p.m.)

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CERTIFICATE

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I HEREBY CERTIFY that the proceedings and

4

evidence are contained fully and accurately in the

5

stenographic notes taken by me upon the public

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hearing of The Philadelphia City Council, taken on

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May 24, 2004, and that this is a true and correct

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transcript of same.

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CYNTHIA A. WHYTE

DAVID A. DEIK, RPR and
Commissioner of Deeds

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