

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

COUNCIL OF THE CITY OF PHILADELPHIA
COMMITTEE OF THE WHOLE

- - -

Room 400, City Hall
Philadelphia, Pennsylvania
Monday, February 27, 2006
10:35 a.m.

- - -

PRESENT:

- COUNCIL PRESIDENT ANNA C. VERNA
- COUNCILWOMAN JANNIE BLACKWELL
- COUNCILMAN DARRELL L. CLARKE
- COUNCILMAN FRANK DiCICCO
- COUNCILMAN W. WILSON GOODE, JR.
- COUNCILMAN JACK KELLY
- COUNCILMAN JAMES F. KENNEY
- COUNCILWOMAN JOAN KRAJEWSKI
- COUNCILMAN MICHAEL A. NUTTER
- COUNCILMAN JUAN RAMOS
- COUNCILMAN FRANK RIZZO
- COUNCILWOMAN MARIAN B. TASCO

BILLS 060004, 060006, 060007, 060008, 060014,
060089 and 060090

- - -

V A R A L L O Incorporated
Litigation Support Services
Eleven Penn Center
1835 Market Street, Suite 600
Philadelphia, Pennsylvania 19103
215.561.2220 215.567.2670

1

2

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

COUNCIL PRESIDENT VERNA: Good morning, everyone. This is the Committee of the Whole's public hearings on tax bills.

I would ask Mr. McPherson to please read the title of each of the bills before us, please.

MR. MCPHERSON: Bill No. 060004, an ordinance amending Section 19-1801 of The Philadelphia Code, entitled "Authorization of Tax," to further authorize the Board of Education of the School District of Philadelphia to impose a tax on real estate within the City of Philadelphia; all under certain terms and conditions.

Bill No. 060006, an ordinance amending Section 19-2604 of The Philadelphia Code, relating to tax rates, credits and alternative tax computation for the business privilege tax, by reducing certain tax rates, under certain terms and conditions.

Bill No. 060007, an ordinance

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 amending Chapter 19-1500 of The
3 Philadelphia Code, entitled "Wage and Net
4 Profits Tax," by deleting certain special
5 tax provisions and related definitions
6 and rates, all under certain terms and
7 conditions.

8 Bill No. 060008 an ordinance
9 amending Chapter 19-1800 of The
10 Philadelphia Code, entitled "School Tax
11 Authorization," by amending Section
12 19-1806, entitled "Authorization of
13 Realty Use and Occupancy Tax," to further
14 authorize the Board of Education of the
15 School District of Philadelphia to impose
16 a tax on the use or occupancy of real
17 estate within the School District of
18 Philadelphia.

19 Bill No. 060014, an ordinance
20 amending Chapter 19-2600 of The
21 Philadelphia Code, entitled "Business
22 Privilege Taxes," by adding a new
23 exception from the definition of
24 "Receipts," under certain terms and
25 conditions.

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 Bill No. 060089, an ordinance
3 amending Section 19-2604 of The
4 Philadelphia Code, relating to tax rates,
5 credits and alternative tax computation
6 for the business privilege tax, by
7 reducing certain tax rates, under certain
8 terms and conditions.

9 Bill No. 060090, an ordinance
10 amending Section 19-2604 of The
11 Philadelphia Code, relating to tax rates,
12 credits and alternative tax computation
13 for the business privilege tax, by
14 reducing certain tax rates, under certain
15 terms and conditions.

16 COUNCIL PRESIDENT VERNA: Thank
17 you.

18 I would like the record to
19 reflect that Bill Nos. 060004 and 060008
20 will be heard on Tuesday, April the 4th
21 at 10:00 a.m.

22 I would ask Mr. McPherson to
23 please call our first witness.

24 MR. MCPHERSON: It's a panel
25 from Philadelphia Forward.

1 2/27/06 - WHOLE - BILL 060006, ETC.

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

6 MR. MANDEL: Good morning. My
7 name is Brett Mandel and I'm the
8 Executive Director of Philadelphia
9 Forward.

10 Madam President and members of
11 City Council, thank you for providing
12 this forum to discuss tax bills,
13 specifically legislation to address the
14 job-killing business privilege tax, and
15 thank you to this City Council and to
16 Mayor Street for continuing to engage in
17 a debate about taxes and the City's
18 future.

19 The further removed we are from
20 November 2003, when the Tax Reform
21 Commission released its ground-breaking
22 final report, it becomes more important
23 to remember how we got here. As you
24 know, 80 percent of the electorate voted
25 to establish the Tax Reform Commission in

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 2002, and the Commission spent nearly a
3 year and about a half a million dollars
4 in public funds to draft a plan to make
5 our tax structure more fair and less
6 burdensome so we can attract and retain
7 jobs and residents.

8 That plan was embraced by civic
9 groups, business organizations and
10 neighborhood associations. That plan was
11 endorsed by the Mayor's hand-picked 21st
12 Century Review Transition Team and that
13 endorsement was echoed by the Mayor's
14 invitation-only economic summit. Yet, we
15 continue to debate these issues.

16 We debated whether our high and
17 unfair taxes chased firms and families
18 from the City. We now understand that
19 they do. We debated whether we could
20 afford to reduce our oppressive tax
21 burden without threatening vital City
22 services. We now know that we can. We
23 now are determining how soon, how certain
24 and how structured tax reform should be.

25 There is much tweaking that we

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 could do with the business privilege tax
3 and the way it exempts certain firms or
4 forces others to pay higher tax burdens,
5 but the true problem is that the tax
6 exists at all. Simply put, other cities
7 and other locales around Philadelphia do
8 not impose a tax like this, and the very
9 fact that we do puts us at a competitive
10 disadvantage.

11 So while this Council is right
12 to consider Councilwoman Reynold Brown's
13 and Councilman O'Neill's legislation to
14 create an exemption for bookbinders in
15 Philadelphia and while the Council is
16 encouraged to lengthen the net operating
17 look carryforward, adopt single-factor
18 apportionment and eliminate the situation
19 that forces sole proprietors and
20 partnerships to actually pay an effective
21 tax rate that is higher than their
22 corporate competitors, the Tax Reform
23 fundamentally concluded that we must, and
24 that we can, fundamentally phase out this
25 job-killing tax and end all of its

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 problems.

3 We firmly believe that if we
4 reduce the burden of this tax, we will
5 grow jobs and we will increase the value
6 of commercial real estate in
7 Philadelphia, which will increase overall
8 tax revenues in the City in the future.
9 In fact, our experience in the last
10 decade of tax reductions has demonstrated
11 that we have cut taxes, but increased tax
12 revenues in each year of our tax
13 reduction program.

14 But you have certainly heard
15 this before from me. Therefore,
16 Philadelphia is pleased to present two
17 panels of informed witnesses for your
18 consideration who will make brief
19 statements and then make themselves and
20 their expertise available for your
21 interrogation. Panel 1 will include
22 employers who have located jobs and
23 businesses outside Philadelphia because
24 of the job-killing business privilege
25 tax. Panel 2 will include employers and

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 members of the Tax Reform Commission who
3 can attest to the idea that we must end
4 it, not mend it. We don't need half
5 measures; we need true tax reform. Today
6 taxes hold Philadelphia back. Tomorrow
7 tax reform can move Philadelphia forward.

8 With that, I will introduce Lou
9 Katz, who will begin our testimony.

10 MR. KATZ: Madam President,
11 members of City Council. My name is --

12 COUNCIL PRESIDENT VERNA: Good
13 morning.

14 MR. KATZ: My name is Lou Katz.
15 I employ over 300 individuals, and my
16 business is located on the Montgomery
17 County side of Township Line Road. When
18 my current lease was about to expire, I
19 began looking for locations within the
20 City limits where I could better take
21 advantage of what the City could offer to
22 me and to my employees.

23 I found a building that had
24 stood empty for almost a year and was
25 ready to purchase and renovate it. In

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 addition, I was prepared to increase key
3 employee salaries to offset Philadelphia
4 wage taxes. In other words, I was ready
5 to fully commit to the City by bringing
6 in new employees, renovating
7 non-income-producing property and
8 becoming a new contributor to
9 Philadelphia real estate taxes.

10 However, when I shared my new
11 vision with my accountants, they
12 attempted to explain the Philadelphia
13 business privilege tax. They pointed out
14 that I would be paying taxes on revenue
15 whether I made a profit or not. They
16 said that given my rising expenses,
17 including the ever-increasing medical
18 malpractice, the likelihood of an
19 increase in minimum wage which would
20 spiral salaries upward, even though my
21 salaries are well above the current
22 minimum wage, in my low-margin industry,
23 the addition of a business privilege tax
24 is an expense I could simply not afford.
25 It made no sense for me to pay such a tax

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 when I could avoid it by staying a mere
3 200 yards out of the City. I renewed my
4 lease in Montgomery County.

5 I stayed out of the City
6 because of the BPT. On the flipside, I
7 have an option to terminate my lease if I
8 purchase a building, even if it's in
9 Philadelphia. But for the BPT, I would
10 move into the City. I would add new
11 employees to the Philadelphia tax roles.
12 My business would be growing in
13 Philadelphia. I would be purchasing and
14 renovating a building somewhere within
15 the City limits.

16 I hope this City Council will
17 reduce both the gross receipts and net
18 income portions of the BPT and provide a
19 fixed schedule of at least five years of
20 legislated cuts and provide a schedule to
21 phase out this job-killing tax. I need
22 some certainty to plan for the future
23 growth of my business.

24 Thank you.

25 COUNCIL PRESIDENT VERNA:

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 You're welcome.

3 MR. MANDEL: Mr. Katz has
4 copies of his testimony as well.

5 COUNCIL PRESIDENT VERNA: Just
6 a moment, please.

7 Councilman Kenney, you have a
8 point of order?

9 COUNCILMAN KENNEY: Point of
10 information.

11 COUNCIL PRESIDENT VERNA: Point
12 of information.

13 COUNCILMAN KENNEY: Mr. Katz,
14 what is your business?

15 MR. KATZ: We provide home
16 health services.

17 COUNCILMAN KENNEY: So it's
18 mostly office work or you send people
19 out?

20 MR. KATZ: We have around 30
21 office workers and the rest are in the
22 field.

23 COUNCILMAN KENNEY: Thank you.

24 COUNCIL PRESIDENT VERNA: Do we
25 have another witness? Please identify

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 yourself for the record.

3 MS. SALLEY: Good morning. My
4 name is Lisa Salley, S-A-L-L-E-Y, and I'm
5 the owner of a mortgage brokerage by the
6 name of Heritage Capital Services.

7 Actually, just to give you a
8 little bit of history, I'm a native of
9 Philadelphia. I went to the public
10 school system here in the Philadelphia
11 area, left after high school, did
12 collegiate studies and did the first 25
13 years of my corporate career before
14 coming back to Philadelphia full time in
15 2004, but beginning to plan for it in
16 2003.

17 I decided to come back to
18 Philadelphia, that I would open the
19 mortgage brokerage, and as I began to
20 evaluate where to put the business, where
21 to have the core operations, how and
22 where to recruit, I looked at the City of
23 Philadelphia because I am a native
24 Philadelphian. I live in Philadelphia
25 currently, my family, grandparents,

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 aunts, uncles, cousins and so forth. And
3 I'm actually still very active in
4 Philadelphia. But the long story short,
5 I ended up locating my business in
6 Montgomery County because of the business
7 privilege tax, when I looked at just
8 strictly the numbers associated with
9 starting a small business and where the
10 tax monies could be used to do other
11 things in the start-up operations. So I
12 made the initial decision in 2003 to
13 physically locate outside of the City,
14 and I did that.

15 It's now 2006, and two major
16 things have happened from a growth point
17 of view from the business. We spun off
18 one other financial business. That
19 business also employs people now outside
20 of Philadelphia, but in the metropolitan
21 area, in Montgomery County. So we've got
22 one spin-off in that area.

23 The second thing is, because of
24 the growth and the size of the business,
25 with the amount of volume that we're

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 doing, I'm now considering purchasing
3 space. I've been actively looking for
4 space to purchase since November. I did
5 look initially in the City of
6 Philadelphia, but, again, as I do the
7 numbers and because of the business
8 privilege tax, I am leaning towards
9 Montgomery County right now. And I would
10 ask that the City Council would consider
11 reducing and even potentially eliminating
12 the business privilege tax so that people
13 like myself who are native
14 Philadelphians, who make a commitment as
15 we return or even stay in Philadelphia,
16 would like to have businesses in the City
17 itself, but the business privilege tax in
18 itself is an uncompetitive edge that we
19 have to figure out how to work against.

20 So I would just implore the
21 Council as you consider these discussions
22 and the evaluations this morning to
23 eliminate the tax itself, to consider
24 that strongly, to give small businesses
25 an opportunity.

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 COUNCIL PRESIDENT VERNA: I'm
3 rather curious. If in fact Council were
4 to reduce the BPT tax, would you be
5 inclined to move back into the City?

6 MS. SALLEY: I would be
7 inclined to move the current operations
8 in the county back into the City, number
9 one. The second thing that I would be
10 inclined to do would to not purchase,
11 because I'm looking to make my first
12 purchase commercially for the operation
13 itself. I'd purchase physically in the
14 City instead of in the county.

15 COUNCIL PRESIDENT VERNA: Thank
16 you very much.

17 Councilman Goode, did you want
18 to be recognized at this point?

19 COUNCILMAN GOODE: For the
20 entire panel.

21 COUNCIL PRESIDENT VERNA: Okay.
22 Good morning, sir. Please
23 identify yourself for the record.

24 MR. BRENNER: Good morning. My
25 name is George Brenner, and my current

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 occupation is to provide small- and
3 medium-sized businesses with financial,
4 operational and business development
5 consulting services in the pharmaceutical
6 contract research field. My background
7 also includes 20 years of experience as
8 Vice-President at a contract research
9 organization, as well as experience in
10 healthcare, public accounting and
11 insurance.

12 I'd like to address City
13 Council regarding a company called
14 Philadelphia Association for Clinical
15 Trials, also known as PACT, P-A-C-T, and
16 a decision that this company had to make
17 which was impacted by the City of
18 Philadelphia taxes on businesses
19 specifically.

20 The company was founded in
21 1980, and PACT was formed by a consortium
22 of Philadelphia area hospitals with the
23 mission of taking advantage of the wealth
24 of healthcare talent in the Philadelphia
25 region and to attract pharmaceutical

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 research and development funds into the
3 local economy.

4 By 1989, PACT, which was
5 located at University City Science
6 Center, had grown to approximately 50
7 employees. The company was faced with a
8 decision to relocate its office space in
9 order to accommodate additional staff. A
10 number of variables, including location
11 of current employees, access to public
12 transportation, cost of new office space,
13 moving costs, personal taxes and business
14 taxes, were considered in determining
15 where to relocate.

16 In 1989, around that time, the
17 Goode Administration had recognized that
18 the City-imposed business taxes were a
19 major contributing factor to the exodus
20 of many businesses from Philadelphia.
21 The Goode Administration announced a
22 five-year plan to begin the reduction of
23 Philadelphia business taxes.

24 Now, based on this news, PACT
25 contacted the City and worked side by

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 side with City representatives to look
3 for office space within the City of
4 Philadelphia, as well as get a better
5 understanding of the planned tax
6 reductions.

7 Now, while looking at the
8 factors of the suburban locations and the
9 Philadelphia locations, most factors were
10 very comparable. Office buildings close
11 to public transportation in the suburbs
12 meant that there would be little impact
13 on the existing employees, and the rental
14 rates were competitive. However,
15 comparing the business tax structure in
16 the suburbs to the Philadelphia business
17 taxes became a deciding factor. Even
18 with the Goode Administration's five-year
19 plan, which was not approved at the time,
20 the suburban business taxes were
21 dramatically lower and, thus, much more
22 favorable to PACT. As a result, a
23 decision was made to take the 50
24 employees and move out to the suburbs.

25 Now, since 1989, PACT and its

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 successor companies have had to relocate
3 to additional space in the suburbs, as
4 well as acquire additional office space
5 three additional times. The company
6 continues to grow and reached an
7 employment of approximately 450
8 employees.

9 Now, the question for City
10 Council to consider is, does the
11 collection of business taxes from a
12 company such as PACT outweigh the
13 economic impact of 450 additional
14 City-based jobs?

15 Now, since PACT moved out of
16 Philadelphia 17 years ago, obviously the
17 City has not collected any additional
18 business tax revenues from PACT.
19 Consider, however, if the City waived its
20 business taxes and not collected any
21 business taxes from PACT and kept the 450
22 administrative jobs, the scientific jobs,
23 the medical jobs, the technological jobs,
24 what would the value be to the City of
25 Philadelphia? Not only has the City of

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 Philadelphia lost tax revenues from a
3 business that moved out, it has also lost
4 the economic impact of City-based jobs.

5 Thank you.

6 COUNCIL PRESIDENT VERNA: Thank
7 you.

8 Good morning. Please identify
9 yourself for the record.

10 MR. ZISKIND: Scott Ziskind,
11 Z-I-S-K-I-N-D. I'm a former Philadelphia
12 business owner. I am the Philadelphian.
13 I was born here. I went to public
14 schools here. I started a business here.
15 I own a house here, and I'm raising my
16 family here. My company does work all
17 over the United States, but even with the
18 high rate of business taxes that my
19 company has paid, I've remained here.
20 Ninety-nine percent of my business is
21 outside of the City. Seventy-five
22 percent of that is outside the state.
23 And, yes, I do pay taxes in the states
24 that we do business in. California and
25 New York are a few of many that I have

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 returns in.

3 But I remain here, until a
4 routine audit of my Philadelphia sales
5 tax a few years ago, where we also own
6 and operate another company in Camden,
7 New Jersey, which because of the nature
8 of the business is not allowed to operate
9 in the state of Pennsylvania. It's wine
10 storage. And going through this audit,
11 the auditor picked up that one company,
12 the company based in Philadelphia, is the
13 management company for the company in New
14 Jersey, and he asked me why I kept my
15 business in Philadelphia if I already had
16 another company out of state.

17 When I asked the man to repeat
18 himself, he realized what he had said and
19 would not repeat himself. By the end of
20 that year, we had formed another
21 corporation in New Jersey and had moved.

22 I still maintain a Philadelphia
23 business license, because one percent of
24 my business is still in Philadelphia. I
25 cannot calculate how much money I've

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 saved in the last few years, but I know
3 that it's helped pay for the offset of my
4 health insurance increases and things
5 like that. We also have purchased a
6 commercial building in Camden since we've
7 moved.

8 But I'm still true to
9 Philadelphia, still live here. You guys
10 have to do something about the business
11 privilege tax. There are a lot of very
12 small businesses like myself. We don't
13 employ nearly the numbers that I've heard
14 here this morning, but my little company
15 feeds five families, and those five
16 families are five individual businesses
17 that every year get clobbered by this
18 business privilege tax. And it's the
19 small guys. It's not like Comcast that
20 you guys are giving a free ride on a lot
21 of the taxes that we have to pay, but
22 it's the little guys that are supporting
23 the City, and pretty soon there won't be
24 any little guys left.

25 COUNCIL PRESIDENT VERNA: I

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 really want to thank you for taking the
3 time to come in to testify.

4 At this time, the Chair
5 recognizes Councilman Goode.

6 COUNCILMAN GOODE: Thank you,
7 Madam President, and I thank all of you
8 for your testimony.

9 I want to deal a little bit
10 with the who, what and where of job
11 creation, starting with the who. Who can
12 create jobs? How does Philadelphia
13 Forward and the panelists intend to
14 address the issue of racial and gender
15 discrimination in small business lending?

16 MR. ZISKIND: I employ the best
17 contractors I can find. I was raised in
18 a color-blind family.

19 COUNCILMAN GOODE: That's not
20 the question I asked. The question is,
21 how does the panel expect to address the
22 issue of racial and gender discrimination
23 in small business lending, the issue of
24 who can create jobs in Philadelphia? If
25 you don't have access to capital and

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 credit or equitable access to capital and
3 credit, you can't create businesses and
4 create jobs at the same rate. And that
5 is part of the problem, the fact that the
6 City is majority female, majority people
7 of color, but there is still
8 discrimination in small business lending.

9 MR. MANDEL: I'll let each of
10 the panelists speak for themselves, but I
11 think you're absolutely right,
12 Councilman. There's no question about
13 that. This panel was assembled to talk
14 about the effects of the business
15 privilege tax. Absolutely the work that
16 you've done in documenting the problems
17 with small business lending and calling
18 attention to it, we need to focus on
19 that, but today at this point --

20 COUNCILMAN GOODE: The simple
21 message is that business tax reforms
22 equals new jobs. I'm asking a question
23 about that job creation. The first
24 question is, who can create jobs and how
25 do we address the issue if there's not

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 equitable access to business development
3 because there's not equitable access to
4 capital and credit?

5 MR. BRENNER: Let me address
6 that. The type of business that I
7 represented here actually is not a
8 capital-intensive business, and I can
9 tell you that when this business was
10 originally formed, it was thinly
11 capitalized, and it had been a constant
12 struggle to maintain its profitability.

13 The issue that this business
14 faced from an employee perspective was
15 not so much looking for minority
16 employees, but looking for qualified
17 employees.

18 COUNCILMAN GOODE: That's not
19 the question I asked. I asked about
20 small business lending and racial and
21 gender discrimination in small business
22 lending.

23 MS. SALLEY: And I guess I'm
24 not sure. I'm in a business that
25 actually does lending, and we do lending

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 irrespective of gender or race. There
3 are certain, if you will, underwriting
4 criteria that has to be met. I'll use my
5 business as an example. When we were
6 about to start, I made a decision to do
7 it essentially from a cash-driven funding
8 process as opposed from a debt-based
9 scenario to get started. As I now look
10 at the growth -- I've proven the business
11 model and the structure of the business
12 itself -- I now consider myself in Phase
13 2 of the growth of the business and I'm
14 now considering a different growth
15 strategy. I am considering a debt
16 mechanism to help get me there. I am
17 going through very formal processes with
18 the bank and so forth.

19 So if you could help us
20 understand your question a little better
21 relative to job creation, I'd answer to
22 the job creation piece that the --

23 COUNCILMAN GOODE: The issue is
24 very simple. As we talk about business
25 tax reform, we're talking about the issue

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 of economic growth and we're talking
3 about the issue of job creation. The
4 issue is whether we are also at the same
5 time addressing the issue of economic
6 equity and whether there's equitable
7 access to capital and credit and there
8 was equitable access to business
9 development and the ability to create
10 businesses and create jobs.

11 I'll move on to my second
12 question, which is the what and what type
13 of job quality. I'd like to ask each of
14 the panelists, what is your position on
15 the state minimum wage?

16 MS. SALLEY: What is your what?
17 I'm sorry.

18 COUNCILMAN GOODE: Position on
19 the state minimum wage.

20 MR. ZISKIND: I can answer that
21 one. I have a non-union company --

22 COUNCIL PRESIDENT VERNA:
23 Excuse me, sir. You're going to have to
24 use the microphone.

25 MR. ZISKIND: I have a

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 non-union company --

3 COUNCIL PRESIDENT VERNA:

4 Excuse me, sir. You're going to have to
5 identify yourself for the record.

6 MR. ZISKIND: I'm sorry. Scott
7 Ziskind again.

8 I have a non-union company. We
9 pay better than prevailing union wages.
10 Even my laborers make more than a union
11 laborer would make in a given week.

12 COUNCILMAN GOODE: My question
13 is, what is your position on the state
14 minimum wage? What should the state
15 minimum wage be?

16 MR. ZISKIND: I'm not aware of
17 what it is now because I don't pay
18 anything near it. I pay a lot more than
19 what it is.

20 COUNCILMAN GOODE: Does another
21 panelist want to answer the question?
22 What should the state minimum wage be?

23 MR. ZISKIND: It should be a
24 livable wage.

25 COUNCILMAN GOODE: My third

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 question is the where. Other than
3 business tax reform, what's your
4 organization doing to help neighborhood
5 businesses? Can you name specific
6 initiatives to deal with neighborhood
7 commercial corridors?

8 MR. MANDEL: Could you repeat
9 the question?

10 COUNCILMAN GOODE: Other than
11 business tax reform, what is your
12 organization doing to help neighborhood
13 businesses? Can you name any specific
14 initiatives to help neighborhood
15 commercial corridors?

16 MR. MANDEL: Philadelphia
17 Forward has been working to promote the
18 recommendations of the Tax Reform
19 Commission. We've also been outspoken on
20 the need to improve the ethical framework
21 with which we make decisions in
22 Philadelphia. We've talked a lot
23 recently about the budget system itself
24 and improving the public knowledge about
25 what the budget is. That is what we are

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 doing.

3 Lisa, if you have initiatives
4 that you're working on.

5 MS. SALLEY: I happen to live
6 in Mount Airy. Mount Airy USA is very
7 active in that particular area. One of
8 the things I've done as an interim
9 strategy is to put a processing office
10 there to try to create jobs specifically
11 there, and I also serve on the Design
12 Review Board for Mount Airy USA to help
13 encourage jobs into the City, in
14 particular in the downtown Mount Airy
15 area. So I try to put not only voice but
16 hands with the things that I believe in
17 as well.

18 COUNCILMAN GOODE: Thank you.

19 Thank you, Madam President.

20 COUNCIL PRESIDENT VERNA:

21 You're welcome.

22 Mr. Mandel, do you believe that
23 we should be reducing the net income
24 portion of the BPT tax or should we just
25 continue with the gross receipts

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 reductions?

3 MR. MANDEL: To understand the
4 answer to that question would just take a
5 step back and look at what those two
6 different taxes tax.

7 The gross receipts portion
8 taxes City receipts. So if you sell
9 something, a dollar comes over the cash
10 register in the City, you're paying a tax
11 on City receipts, and as you know, it's
12 whether you make a profit or not.

13 The net income tax is about
14 whether you're making money. You can
15 have lots and lots of sales and make no
16 money. So that is a very compelling
17 reason why we should be focusing on the
18 gross receipts tax. But you can also
19 have a business in Philadelphia that
20 exports its goods and services all around
21 the world and pay little or no gross
22 receipts tax. These companies that --
23 yes, little or no gross receipts tax. So
24 they feel it only on the net income tax.

25 These are companies that

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 compete nationally, compete globally. If
3 they don't have a business reason for
4 being in Philadelphia, well, it's very
5 compelling for them to say, I'll move my
6 firm a few steps over City line and not
7 pay any business privilege tax.

8 So you certainly need to
9 concentrate on both sides of the
10 equation. The gross receipts side
11 disproportionately hurts small and
12 growing neighborhood businesses that are
13 selling to Philadelphians. The net
14 income side hurts firms that compete
15 nationally and compete globally. We need
16 both in a thriving economy in the City of
17 Philadelphia. That's why the Tax Reform
18 Commission fundamentally said we have to
19 attack both sides of this problem.

20 COUNCIL PRESIDENT VERNA: Thank
21 you.

22 For the record, I would ask you
23 another question. The Administration has
24 taken the position that we should only
25 legislatively reduce taxes one year at a

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 time instead of multiple years to
3 coincide with the Five-Year Plan.

4 As a business person, what are
5 your thoughts on this issue?

6 MR. MANDEL: I'll let the
7 business people answer, but I will just
8 make a few comments about that in
9 general.

10 Philadelphia has a legislated
11 schedule to reduce the wage tax over the
12 next ten years that was passed by this
13 City Council, signed by our Mayor. The
14 tax schedule that we are debating
15 changing today was, again, approved by
16 this Council, signed by our Mayor, a
17 legislated schedule of taxes.

18 There is a misnomer, a
19 falsehood that by legislating a schedule
20 of tax cuts in the future, that would tie
21 the City's hands. We would not be able
22 to change this. As you know, as I said,
23 right now you are debating legislation to
24 change a schedule. The state has
25 announced a schedule to phase out the

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 capital stock and franchise tax twice, I
3 believe, during the phase-out. We have
4 reconsidered and said, Let's change the
5 schedule, let's pause it for a year.

6 The City locks future taxpayers
7 into expenditures when it sells bonds,
8 when it adopts multi-year contracts. It
9 is almost the easiest thing that this
10 City Council does to change tax rates,
11 because within literally a few weeks, you
12 can legislate and unlegislate tax rates.
13 There is no reason why not to legislate
14 tax rates. And as I'll ask the business
15 owners to respond, there's a very
16 compelling reason why you should
17 legislate a multi-year schedule.

18 Businesses are making decisions
19 for years in advance. Mr. Katz is
20 looking to sign a multi-year lease. Ms.
21 Salley is looking to buy a building.

22 I'll ask them to respond, but
23 we need certainty, to the extent that we
24 can provide it, and to the extent that we
25 can say this is what we're going to do in

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 the next year and the year after and the
3 year after and the year after, it's very
4 compelling.

5 MR. BRENNER: George Brenner.

6 Let me just elaborate on that.

7 When businesses decide to relocate,
8 typically it's at the end of a lease and
9 you're looking for new office space. The
10 decision really comes down to a financial
11 modeling approach. You're putting in the
12 cost of renting the new space. You're
13 putting in other costs, present value,
14 doing all the mathematical gyrations that
15 require you to come to a sound decision.

16 If you think about it,
17 businesses don't sign one-year leases
18 typically. It's a five, seven, perhaps
19 ten-year lease. So the decision that
20 you're making is a longer term than a
21 one-year term that you're looking at. So
22 that argument goes for putting together a
23 five-year plan, at a minimum. Just like
24 we saw back when my company was
25 considering leaving, Mayor Goode at the

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 time put together a five-year plan, which
3 helped. Unfortunately, the plan never
4 got legs.

5 COUNCIL PRESIDENT VERNA: So
6 what you're saying, it's the question of
7 predictability.

8 MR. BRENNER: Yes.

9 COUNCIL PRESIDENT VERNA: Okay.
10 The Chair at this time recognizes
11 Councilman Kenney.

12 COUNCILMAN KENNEY: Madam
13 President, with all due respect, and I
14 apologize, I really don't understand what
15 we're doing here. I just want to
16 understand so I understand the framework
17 in which we're having this discussion
18 today.

19 We're basically dealing with
20 five bills.

21 COUNCIL PRESIDENT VERNA: Yes.

22 COUNCILMAN KENNEY: Two of them
23 are Administration bills with one-year
24 reductions. Two of them have been
25 sponsored by Councilman Nutter and

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 others, which are multi-year reductions.
3 And one is a kind of a niche tax issue,
4 which the Administration supports, which
5 is a multiple-year tax reduction, not a
6 one-year tax reduction.

7 Is that correct within the
8 framework?

9 COUNCIL PRESIDENT VERNA: Yes.

10 COUNCILMAN KENNEY: Why are we
11 having this discussion now? Because it
12 seems that what everyone is testifying to
13 we've heard for years now. I mean, this
14 is nothing new. With the exception of
15 the niche tax issue, there's really
16 nothing new we're discussing. Shouldn't
17 we be having this discussion when we're
18 ready to consider the passage of the
19 budget?

20 Certainly it's our job to
21 listen to testimony, and I don't mind
22 staying here and listening to it, but --

23 COUNCIL PRESIDENT VERNA: Well,
24 I think today starts that process of the
25 budget.

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 COUNCILMAN KENNEY: Because I
3 don't think any votes have changed.

4 COUNCIL PRESIDENT VERNA: Well,
5 I wouldn't count on that.

6 COUNCILMAN KENNEY: All right.

7 COUNCIL PRESIDENT VERNA: That
8 may be your opinion.

9 COUNCILMAN KENNEY: Something I
10 don't know?

11 COUNCIL PRESIDENT VERNA: No,
12 but --

13 COUNCILMAN KENNEY: I'm always
14 willing to be enlightened. I just think
15 we've been going through this process for
16 years now.

17 COUNCIL PRESIDENT VERNA: As I
18 said, I think you're taking for granted
19 that Councilmembers who felt one way last
20 year are going to feel the same way this
21 year.

22 COUNCILMAN KENNEY: Okay.

23 COUNCIL PRESIDENT VERNA: I
24 have not taken a poll, but I think that
25 sometimes people are inclined to change

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 their position.

3 COUNCILMAN KENNEY: And I also
4 think being around here as long as I've
5 been around here, and it's not as long as
6 some others, but part of the problem we
7 run into with this process is that I can
8 see a scenario where everybody votes for
9 all of them and it gets so confusing,
10 that the Administration then decides
11 which ones they're going to choose. I
12 think we've been through this with item
13 pricing and some other issues in the
14 past. So that now there's so many of
15 these bills in consideration, you could
16 argue that I voted for 060006 and 07 and
17 I've done tax reform, but it's not what
18 the Commission has recommended and it's,
19 in some people's opinion, not something
20 that's going to be effective over a
21 long-term period.

22 I mean, I just think it's in
23 ways confusing the issue with all these
24 bills. Certainly the process is what it
25 is and we're going to proceed through it,

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 but I just want the record to be clear
3 that I've heard all this testimony
4 before. And I appreciate people taking
5 time out of their busy workday because
6 they have to pay such high taxes in
7 Philly to come in here and testify and
8 leave their businesses, but none of this
9 information is new.

10 COUNCIL PRESIDENT VERNA: Well,
11 are you suggesting that we not have any
12 hearings on the tax bills --

13 COUNCILMAN KENNEY: Not at all,
14 unless --

15 COUNCIL PRESIDENT VERNA: --
16 and we simply come in and cast our vote
17 and leave?

18 COUNCILMAN KENNEY: No. No.
19 I'm confused. I think the issue is
20 getting confused or wanting to be more
21 confusing because of the number of bills
22 we have here now and the ability to kind
23 of legislatively hide in the guise of tax
24 reform, because I voted for one, I didn't
25 vote for the other. We've had this

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 scenario before. I just want the record
3 to be clear --

4 COUNCIL PRESIDENT VERNA: I
5 think one bill is repealing --

6 COUNCILMAN KENNEY: That, I
7 understand.

8 COUNCIL PRESIDENT VERNA: -- a
9 bill that we have already passed some
10 time ago.

11 COUNCILMAN KENNEY: Is that 14?

12 COUNCIL PRESIDENT VERNA: 07.
13 And 04 and 06, as I said at the very
14 beginning of the hearing -- I'm sorry; 04
15 and 08 are going to be continued until
16 April the 4th at 10 o'clock, because they
17 deal with the School District and they
18 were inadvertently added.

19 The others, as I said, one
20 pertains to the business privilege for
21 one year. The other is the multi-year.
22 So I don't know what --

23 COUNCILMAN KENNEY: I just want
24 the record to be clear that this is
25 information that we've heard forever and

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 I don't see anything new, unless you know
3 something I don't, which hopefully you're
4 correct, something has changed, but I
5 just wanted to make the record clear.

6 Thank you.

7 COUNCIL PRESIDENT VERNA: Thank
8 you.

9 MR. MANDEL: Councilman, I
10 couldn't agree with you more. I would be
11 thrilled if we had settled this issue any
12 number of times before we come back, and
13 I would urge this Council to adopt a
14 comprehensive consensus tax reform
15 legislation that would follow at least on
16 the spirit, if not the letter, of what
17 the Tax Reform Commission reported to you
18 everything you asked us to do.

19 COUNCIL PRESIDENT VERNA: Thank
20 you.

21 The Chair recognizes Councilman
22 Goode.

23 COUNCILMAN GOODE: Thank you,
24 Madam President.

25 Just for clarification of the

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 record, the bills before us all have
3 multi-year schedules. One is a
4 three-year schedule; one is a five-year
5 schedule; and beyond that, the Five-Year
6 Plan contains a five-year schedule, not
7 to mention the fact that even if we were
8 to pass a bill as a five-year schedule,
9 we can come back the next year and change
10 it.

11 So what beyond the five-year
12 financial plan and the schedule contained
13 within the five-year financial plan do
14 you really require? If one bill is three
15 years and one bill is five years --

16 MR. MANDEL: The recommendation
17 of the Tax Reform Commission, which I
18 think makes sense in terms of a
19 framework, is a complete phase-out
20 schedule that in the Tax Reform
21 Commission's legislation was a ten-year
22 complete phase-out of the business
23 privilege tax.

24 COUNCILMAN GOODE: And that's
25 not considering any of these bills today?

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 MR. MANDEL: No, it's not.

3 Neither is, I think, anything that we
4 have presented as the Tax Reform
5 Commission's recommendation. None of the
6 bills cuts the gross receipts side, cuts
7 the income side, with an ultimate
8 phase-out of the tax. We hold that out
9 as what is desirable. That's what the
10 Tax Reform Commission concluded. That's
11 what we think makes sense. We asked
12 these people to join us and help echo
13 that.

14 COUNCILMAN GOODE: To go a
15 little bit further with it then, it's
16 clear that by passage of any of these
17 bills, at the end of any of these
18 schedules, we're not in a competitive
19 position. What puts us in a competitive
20 position is if the Mayor and the City
21 Council in the future decides to continue
22 these cuts beyond the schedules within
23 these bills.

24 MR. MANDEL: That is why our
25 second panel, which I have titled "End

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 It, Don't Mend It," will speak to the
3 idea that playing around with the edges,
4 small cuts, small exemptions, are not
5 what we have to be talking about. We
6 have to be talking about fundamentally
7 getting rid of this tax over time.

8 We'll present other employers
9 who have looked at could we do tweaks,
10 could we do some things to help, and
11 we'll also have members of the Tax Reform
12 Commission up here to talk about why we
13 fundamentally concluded it's not about
14 making a tweak over here, making a change
15 over here. Fundamentally over time this
16 tax has to go for Philadelphia to be as
17 competitive as we should be.

18 COUNCILMAN GOODE: Thank you,
19 Madam President.

20 COUNCIL PRESIDENT VERNA:
21 You're welcome.

22 Are there any other members who
23 have questions for this panel?

24 (No response.)

25 COUNCIL PRESIDENT VERNA:

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 Seeing none, thank you.

3 MR. MANDEL: Thank you. With
4 that, I would like to bring up the "End
5 It, Not Mend It" panel of Robert
6 Cheatham, David Rech, Bill Mifflin,
7 Patrick Diogenia, and I'll ask any
8 members of the Tax Reform Commission who
9 have joined us to provide moral support
10 for us as well.

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

15 MR. CHEATHAM: Good morning.
16 My name is Robert Cheatham.

17 Madam President, members of
18 Council, thank you for allowing us to
19 talk to you this morning. My name is
20 Robert Cheatham. My business develops
21 web-based software to perform geographic
22 analysis. I'm here to talk about
23 geographic analysis. You all thought I
24 was here to talk about taxes.

25 I employ 14 people, seven full

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 time and seven part time. My wife and I
3 live in the Fourth District. We pay a
4 lot of taxes: Wage, school tax, real
5 estate, real estate transfer tax, net
6 profits, gross receipts, use and
7 occupancy. It's a pretty long list.

8 I'm here today to express how
9 damaging this tax environment is to both
10 Philadelphia and my business. The
11 business privilege tax is killing jobs at
12 both my business and many others.

13 My company is an S corporation.
14 This is a special kind of corporation
15 that is designed for small businesses.
16 Because Philadelphia does not recognize
17 this status, I actually pay triple taxes.
18 I'm forced to pay both on my business
19 profits tax, my gross receipts and then
20 again on the school tax at a personal
21 level on the same profits.

22 We've gone after every
23 opportunity we can to minimize this
24 burden on our business. We applied for
25 the job creation tax credit. We

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 qualified for it. It's a great idea, but
3 it's largely ineffective. The tax credit
4 is complicated and relatively inflexible
5 to take advantage of.

6 I wasn't born here in
7 Philadelphia. I grew up in Michigan. I
8 lived overseas for several years. I came
9 here for graduate school, stayed here to
10 work and started a business here. I've
11 worked hard to build that business. My
12 wife and I enjoy this City and we care
13 about its future. We want Philadelphia
14 to succeed, and we want to be part of
15 that success.

16 I don't want to live and work
17 in the suburbs, with all due respect to
18 the people that preceded me. I'm not
19 really interested in that. I want to
20 live in the City. For me, it's not about
21 Montgomery County. It's about moving to
22 Boston, Paris, Istanbul, Seattle,
23 Montreal. I and my staff are being
24 pushed to those places.

25 So where was my latest hire?

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 Seattle. And the one before that?
3 Burlington, Vermont. My business is
4 growing, and I'm really happy about that,
5 but I'm learning that if I want to
6 continue to be successful, I don't want
7 to grow it here in Philadelphia.

8 I'm not against paying my fair
9 share. I pay wage tax, and while it's
10 high, I think it's not unfair. If
11 Philadelphia is successful, I know my
12 real estate taxes are going to go up. I
13 think that's fair. But the triple tax
14 that I'm paying is unfair, and it targets
15 small businesses.

16 I'm really tired of seeing
17 Comcast and Dechert and other large
18 corporations getting tax breaks, while my
19 business is left subsidizing them. I
20 don't think they need subsidies. I'd
21 like to see it fair.

22 If you're worried about
23 Philadelphia's future, cut business
24 privilege tax across the board. Be bold.
25 It doesn't need to result in service

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 cuts, and in the long run, it will give
3 the City more money, particularly if it's
4 paired with real estate tax
5 restructuring.

6 Without serious business tax
7 reform, the City's economic development
8 spending, all of the investment that's
9 been made in the last several years in
10 economic development in neighborhoods is
11 going to be futile. I urge you to do
12 something about it for the sake of one of
13 America's finest cities.

14 I'd like to -- I didn't prepare
15 this, but I'd like to respond to
16 Councilman Goode's question earlier with
17 a story that I recently went through. We
18 grew the business, started the business
19 with a small amount of cash, relatively
20 thinly capitalized, but we recently made
21 a decision to apply for a line of credit
22 to help manage our cash flow. The way
23 this works is, the bank examines your
24 books. They look at your P&L statement.
25 They look at your balance sheet. The

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 BPT, in particular the net profit tax,
3 severely impacts our cash flow and our
4 net profit, damaging our ability to
5 qualify for credit, and I would argue
6 that it does so disproportionately to
7 small businesses, and I believe that
8 cutting something like this would
9 actually make qualifying for credit an
10 easier thing.

11 COUNCIL PRESIDENT VERNA:
12 Councilman, you're going to have to put
13 your microphone on because I don't know
14 if the stenographer could hear you.

15 COUNCILMAN GOODE: Thank you,
16 Madam President.

17 I agree with everything you
18 said. It has nothing to do with the
19 question that I asked. And there is an
20 issue of credit gaps that exist in terms
21 of offering access to capital and credit
22 to women and people of color. That's the
23 question I asked. In terms of long-term
24 strategy for economic growth, isn't that
25 an equally important issue? The fact

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 that the City is majority female,
3 majority people of color, but there is an
4 issue of bank redlining and unfair
5 lending practices that keeps any number
6 of people from starting businesses and
7 creating jobs because they were born
8 female or born a person of color, what
9 does this panel suggest in terms of
10 addressing that long-term issue?

11 And the second question I
12 asked, which you did not choose to answer
13 is, what should the state minimum wage
14 be?

15 MR. CHEATHAM: I think the
16 minimum wage should be raised.

17 COUNCILMAN GOODE: To what?

18 MR. CHEATHAM: I think it
19 should be a living wage.

20 COUNCILMAN GOODE: What should
21 the state minimum wage be?

22 MR. CHEATHAM: I'm not an
23 expert on the subject, but I think it
24 should be raised. I think it's a very
25 good point.

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 COUNCIL PRESIDENT VERNA: Thank
3 you.

4 MR. CHEATHAM: Thank you.

5 COUNCIL PRESIDENT VERNA: Good
6 morning. Please identify yourself for
7 the record.

8 MR. RECH: Good morning. David
9 Rech, R-E-C-H. Scribe is the company's
10 name. Good morning, Councilperson
11 President Verna and other Councilpeople.

12 I was concerned about the time,
13 because Brett told me I only had two
14 minutes, but Robert basically said
15 everything that I wanted to say. I will
16 make a couple other points, however.

17 First of all, in response to
18 Councilman Kenney's question, I too am
19 confused. I don't quite understand what
20 issues are up right now, and I try to
21 stay informed, but basically from my
22 business perspective, if we had a fair,
23 predictable, comprehensive tax and it was
24 obviously reformed and dropped for the
25 BPT, we would be in better shape.

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 Now, moving on, there's a
3 couple of things. Last year I testified
4 to the Council when we were considering
5 the BPT and I made several points, many
6 of which were elaborated in an article in
7 the Philadelphia Inquirer and also the
8 Philadelphia Business Journal.

9 I also am not a native
10 Philadelphian. I'm a native Floridian
11 who moved here for graduate school,
12 stayed and started a business in 1999.
13 I'm not going to recount everything, but
14 when I testified here before, I basically
15 explained to you that we're a
16 technology-based company that has
17 imported a number of people here. Since
18 starting in 1999, we've had an average
19 growth of 36 percent. And when I
20 reported to you last, I was explaining to
21 you that we would probably hire our 30th
22 employee sometime in the first quarter of
23 '06, which is now, and that we were
24 considering moving our business out of
25 Philadelphia to possibly Birmingham,

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 Alabama or Nashville, Tennessee or other
3 places. And then, lastly, I was
4 explaining to you that the difference
5 between staying here in Philadelphia and
6 moving out.

7 We are a globally competitive
8 company. It was only a small percentage.
9 So we're not talking about large
10 percentages of distinction between here
11 and other locales.

12 As of today, we are contracted
13 out to equal 50 percent growth for 2006
14 as of today, and we're still growing. So
15 we've done quite better. We just hired
16 our 35th full-time employee, also employ
17 six part-time employees, have nine
18 current openings in our company.

19 Unfortunately, for the City of
20 Philadelphia, we've set up a separate
21 corporation in Broward County, Florida,
22 and all of those hires are going to take
23 place out of the City limits here. Our
24 lease ends at the end of this year and
25 we're considering downsizing. We will

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 remain in the City of Philadelphia
3 because the Northeast corridor is a very
4 strategically important corridor for
5 publishing, but we do not need to do our
6 work out of Philadelphia.

7 I love Philadelphia. I moved
8 here. I have been active here, and I
9 would love to continue to grow here, but
10 it's going to be impossible. I urge you
11 to, A, develop a complete and
12 comprehensive decision about the BPT now,
13 please, so that we can gain
14 predictability in my business, we can
15 plan for the future.

16 The second thing I would say
17 is, when you're considering these, make
18 sure that you consider the companies' in
19 general contribution to the City and who
20 the tax burden falls most greatly on, and
21 you will see that it is businesses that
22 are similar to mine.

23 And then obviously not only
24 give consideration to the gross receipts
25 part of it, but also to the net income

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 part of it. It's exceedingly important
3 that the net income part be considered.
4 As Robert was saying before, it really
5 affects our ability to get credit,
6 valuation of our company, the ability to
7 grow, et cetera.

8 And then if you don't mind,
9 just one quick thing or two quick things.
10 Councilman Goode asked about the racial
11 and gender discrimination in small
12 business loans. I can't speak to that.
13 I'm a cash-funded business. We never
14 borrowed any money. But I can tell you
15 this: In addition to having funding to
16 provide jobs, you also have to have the
17 skills and knowledge to start a business.
18 Ninety percent of businesses fail. Our
19 company when it hit recently its fifth
20 year anniversary, we were a statistical
21 anomaly. And if you look at the
22 environment in which my business
23 operates, you will see that we are
24 predominantly minority and predominately
25 woman, people who are employed by my

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 company, though I am the owner and I'm a
3 white male. The people who will grow,
4 develop skills under our tutelage, who
5 will go out and start their own
6 businesses, who will go out and get
7 better jobs from my company all have that
8 opportunity here in the City of
9 Philadelphia, and they're no longer going
10 to be able to have that.

11 That's it.

12 COUNCIL PRESIDENT VERNA: Thank
13 you very much.

14 The Chair recognizes Councilman
15 Goode.

16 COUNCILMAN GOODE: I'm not sure
17 you fully addressed my question of who
18 can create jobs and whether there is
19 discrimination in terms of who can create
20 jobs.

21 MR. RECH: Well, I would say
22 that is not an issue that I can deal with
23 in a sort of global philosophical sense.
24 I can only deal with that issue --

25 COUNCILMAN GOODE: It's not a

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 philosophical issue.

3 MR. RECH: I can only deal with
4 that on an ad hoc basis, and what I can
5 tell you is that when we make hiring
6 decisions in our company, these are the
7 future people who will be holding
8 positions of importance and also starting
9 their own businesses, going on to
10 graduate careers and everything else.
11 And in our company, it happens to be that
12 we give preference to people who are not
13 white men.

14 COUNCILMAN GOODE: You should
15 be fully concerned that as you train
16 those employees, as they grow to learn
17 your business, are ready for
18 entrepreneurial opportunities, if they
19 are female or person of color, they will
20 face lending discrimination. You should
21 care about that.

22 MR. RECH: I do, but like I
23 said, they also have to have the
24 knowledge and skills to be able to
25 perform the jobs.

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 COUNCILMAN GOODE: Are you
3 assuming that they don't?

4 MR. RECH: No, I'm not. What
5 I'm saying is that if you asked me 20
6 years ago whether I was going to be able
7 to run my company, my answer would be
8 sure, I think I can, but in reality, I
9 did not have the knowledge and skills to
10 perform the job that I do to run my
11 business, to examine budgets, to
12 understand all of the --

13 COUNCILMAN GOODE: So you're
14 assuming that racial and gender
15 discrimination that exists in terms of
16 small business lending is due to a skills
17 gap as opposed to --

18 MR. RECH: Like I said, I'm not
19 addressing that issue. I'm addressing
20 the issue of preparedness.

21 COUNCILMAN GOODE: You chose to
22 address it. You raised the issue. You
23 chose to address it.

24 Thank you.

25 MR. RECH: Thank you.

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 COUNCIL PRESIDENT VERNA: The
3 Chair recognizes Councilwoman Blackwell.

4 COUNCILWOMAN BLACKWELL: Thank
5 you, Madam President.

6 I have only two questions. My
7 first for the panel is, if the BPT were
8 eliminated, corporations would pay no
9 taxes on income, while sole proprietors
10 and partnerships would continue to pay
11 this net profits tax. Please expound on
12 that and explain what happens then. What
13 happens to those businesses and
14 individuals?

15 MR. MANDEL: I can give the
16 perspective from the Tax Reform
17 Commission. I don't know that anybody
18 else on the panel wants to --

19 COUNCILWOMAN BLACKWELL: I
20 mean, is it fair?

21 MR. MANDEL: In the ideal
22 world, if you were looking at
23 restructuring the City of Philadelphia's
24 tax structure from a blank slate, you
25 would probably not have a tax on wages at

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 all in Philadelphia. You probably would
3 not have a tax on business income at all
4 in Philadelphia. The model for local tax
5 structures across this country is, by and
6 large, dependence on a levy on the value
7 of place, the value of property, a little
8 bit coming from sales as well.

9 When we looked at the wage tax,
10 which is also the net profits tax that
11 partners have to pay, our fundamental
12 conclusion was, it's impossible to get
13 rid of it totally because it represents
14 such a huge percentage of the City
15 budget. That said, we should
16 dramatically reduce it, and as you know,
17 this Council has approved a plan and this
18 Mayor has signed a plan to phase that
19 down over the next ten years, which would
20 be a big help.

21 So in terms of the fairness,
22 anyone making a wage in Philadelphia, and
23 that includes owners of business, have to
24 pay a tax on wages. One of the striking
25 features of the business privilege tax is

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 that, well, you know some businesses
3 don't have to pay taxes at all. If you
4 are a utility, if you are a bank, if you
5 are a port-related company, you don't
6 have to pay the business privilege tax at
7 all. In looking at how to make the
8 business tax more fair, some of the ideas
9 that we considered on the Tax Reform
10 Commission were, should we broaden the
11 base? Should we make everybody pay?
12 Would that make sense? Should we ask
13 people to pay one side of the tax,
14 whichever is higher, whether it's gross
15 receipts or net income tax? Does that
16 help us maybe on the fairness? That
17 doesn't necessarily help us on the
18 competitiveness.

19 So fundamentally, in terms of
20 what was fair for the business tax, if we
21 reduce, eliminate the business privilege
22 tax, certainly you're left over with
23 partners still having to pay this net
24 profits tax, but that is the -- fairness
25 is a terrible word to use for this

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 subject, but that is the fairness of the
3 wage tax, that anybody who earns a wage
4 in Philadelphia has to pay that tax.

5 If you could start from
6 scratch, if we were going to say, Let's
7 eliminate every single tax and build a
8 new tax structure in Philadelphia, we
9 might look a lot like Boston. We might
10 look a lot like Lower Merion. We might
11 look a lot like almost every other
12 jurisdiction in the United States that
13 does not tax wages, that does not tax
14 business income.

15 COUNCILWOMAN BLACKWELL: I'm
16 very glad to hear you give me your whole
17 convoluted philosophy of taxes in
18 Philadelphia. That was the most
19 convoluted response I've ever heard. I
20 asked you a question on one kind of tax.
21 So you respond to another. But we're
22 living in times where, unfortunately, a
23 lot of our problems are due --

24 MR. MANDEL: Think of how long
25 it would have taken you to read all 500

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 pages of the Tax Reform Commission's
3 report.

4 COUNCILWOMAN BLACKWELL: -- to
5 people who have their own self-interest
6 in mind and do not look at the greater
7 good for the greater number of people,
8 including sole proprietors and others.
9 They haven't dealt with them, but only
10 their own interests.

11 MR. MANDEL: I'll open the
12 question then to the panel.

13 You are sole proprietors. Do
14 you feel that getting rid of the business
15 privilege tax and paying your tax on net
16 profits makes sense?

17 COUNCILWOMAN BLACKWELL: Excuse
18 me. You chose to answer. Let us run our
19 hearing. You just respond, if you don't
20 mind, Mr. Mandel.

21 What about the position taken
22 by the Tax Reform Commission that higher
23 real estate taxes, including full
24 valuation, should be used to pay for
25 business tax reductions? Let's hear your

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 response to that. I'm sure it would be
3 just as convoluted.

4 MR. MANDEL: I'll try to make
5 it as brief and as cogent as possible.

6 COUNCILWOMAN BLACKWELL: As
7 long as you don't sing, though, we can
8 handle it.

9 MR. MANDEL: Right now in
10 Philadelphia the value of property,
11 specifically the value of commercial
12 property, is low. The notion that we are
13 looking to convert Two Liberty Place into
14 condominiums, that it makes more sense
15 for the owners of office towers to get
16 rent from residents as opposed to rent
17 from offices is not a good thing for the
18 City of Philadelphia.

19 So when we are not able to
20 attract jobs, when we're not able to
21 retain jobs, when the jobs that we're
22 able to attract and retain are going to
23 buildings that are paying no taxes, no
24 business taxes, like the Cira tower or
25 the new Comcast tower with its deals,

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 when we're doing that, we are reducing
3 the value of commercial property in
4 Philadelphia. By not allowing us to
5 capitalize on the increase in the value
6 of commercial property means we give up
7 revenue for the City and for the School
8 District.

9 I'm sure you remember when Paul
10 Levy came before this City Council and
11 testified that for a while, our
12 commercial property values in terms of
13 the entire property value for the City
14 were creeping up. In the late '90s, we
15 were starting to get more money from
16 commercial properties, and that was a
17 good thing, but then the bottom fell out
18 of the market. As you know, many of
19 Center City's trophy buildings have come
20 forward to the City and have been
21 reassessed. Because they can't charge
22 enough for office rent, they have to
23 reduce the value of their building.
24 People from the Building Owners and
25 Managers Association are here to testify

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 to that fact today.

3 If we were able to rent square
4 footage in the City of Philadelphia for
5 \$30 a square foot, \$40 a square foot,
6 which is not unheard of in other cities,
7 the value of our commercial buildings,
8 our trophy buildings, Liberty Place, Two
9 Liberty, would be so much higher, we
10 would be generating so much more revenue
11 to the City. Because some of our trophy
12 buildings are only renting for \$20, less
13 than \$20 a square foot, the value of
14 commercial property is not returning
15 enough to the City of Philadelphia.

16 If you would phase out the
17 business privilege tax, the tax that is
18 on business would get capitalized into
19 the value of commercial structures.
20 That's the research that the Tax Reform
21 Commission showed, that if we reduce the
22 business privilege tax, we generate more
23 money from the real estate tax,
24 specifically more money from the
25 commercial real estate tax. So when you

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 say businesses would not be paying tax,
3 no, businesses would not be paying this
4 tax; they would be paying increased money
5 in real estate tax.

6 Again, I'll ask you to pay
7 attention when the Building Owners and
8 Managers Association testify to this,
9 because they could speak much more
10 knowledgeably to that.

11 COUNCILWOMAN BLACKWELL: I will
12 say, Madam President, to my colleague,
13 Councilman Goode, he asked about jobs.
14 The panelist even responded to jobs
15 somehow, whatever that meant. They
16 didn't answer the question before, but
17 they did now. But thank you very much,
18 Madam President.

19 COUNCIL PRESIDENT VERNA:
20 You're welcome.

21 I think we have a couple other
22 members that would like to testify.

23 MR. MANDEL: Indeed we do.

24 COUNCIL PRESIDENT VERNA:
25 Councilman DiCicco, do you want to hear

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 from the other witnesses or do you want
3 to be recognized now?

4 COUNCILMAN DiCICCO: I'd like
5 to be recognized now, Madam President.
6 Just one quick question.

7 COUNCIL PRESIDENT VERNA: Thank
8 you.

9 COUNCILMAN DiCICCO: Maybe
10 Mr. Mandel can answer this.

11 Do you happen to know how many
12 Chapter S corporations there are
13 currently in the City of Philadelphia?
14 And if you can give me some background
15 and give it to the Chair, the number of
16 people they employ, what the cumulative
17 taxes that they're generating for the
18 City of Philadelphia, that might be
19 helpful, because I suspect there's a
20 significant number of those types of
21 corporations.

22 MR. MANDEL: I don't know off
23 the top of my head.

24 COUNCILMAN DiCICCO: One of the
25 other witnesses talked with the triple

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 tax on Chapter S, so it's something I'd
3 like to --

4 MR. MANDEL: Right. As you
5 know, the Tax Reform Commission, one of
6 the other recommendations was to
7 eliminate that disparity where sole
8 proprietors and partnerships have to pay
9 not only the BPT, but also the net profit
10 tax. We allow them to offset one against
11 the other, but not enough so that the
12 total offset. One of the recommendations
13 in the Tax Reform Commissions's report
14 was that as we are phasing out the
15 business privilege tax, that we eliminate
16 that disparity.

17 I do not have that information
18 in front of me. I'm confident that the
19 Revenue Department has that information.
20 I see Ms. Kammerdeiner is here. I would
21 urge you to --

22 COUNCILMAN DiCICCO: I'll wait
23 for Ms. Kammerdeiner to come up as well.
24 Thank you.

25 Thank you, Madam President.

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 COUNCIL PRESIDENT VERNA: Thank
3 you.

4 Councilman Ramos, do you want
5 to be recognized now or do you want the
6 panel to complete its testimony?

7 COUNCILMAN RAMOS: If you can
8 permit me, it's a very quick question for
9 Mr. Mandel.

10 COUNCIL PRESIDENT VERNA:
11 Certainly.

12 COUNCILMAN RAMOS: Mr. Mandel,
13 are you in support of repealing the wage
14 and net profits tax that is No. 060007?

15 MR. MANDEL: That's what has
16 been referred to as the Cohen bill?

17 COUNCILMAN RAMOS: Yes.

18 MR. MANDEL: Am I in favor of
19 repealing it? If you would say am I --

20 COUNCILMAN RAMOS: No, no. Yes
21 or no?

22 MR. MANDEL: Yes, I am. I
23 don't think that was the most effective
24 way to target tax relief to low-income
25 residents in the City. When the Tax

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 Reform Commission looked at this
3 recommendation, we struggled, because in
4 providing this, it's sometimes referred
5 to as low-income tax cut. It's not a
6 low-income tax cut. It's a low-income
7 tax credit. And what we found when we
8 did the research was that there is a
9 state credit, there is a federal credit,
10 and this would add a local credit. But
11 one of the problems with the state and
12 the federal credit is that not everyone
13 who is able to take advantage of that
14 credit has taken advantage of it.

15 So the Tax Reform Commission's
16 recommendation was to dramatically expand
17 the efforts to make sure that people take
18 advantage of the state and federal taxes.
19 So we would be -- state and federal tax
20 credits, the Earned Income Tax Credit and
21 the state equivalent, so that we could
22 actually reach the people who are not
23 being affected, as opposed to create a
24 new program that would help some of the
25 people who are already being helped by

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 these other programs.

3 COUNCILMAN RAMOS: Madam

4 President, I'll follow up later on.

5 Thank you.

6 COUNCIL PRESIDENT VERNA: Thank

7 you.

8 Mr. Mandel, who is next to

9 testify?

10 Please identify yourself for

11 the record and proceed with your

12 testimony.

13 MR. DIOGENIA: Yes. My name is

14 Patrick Diogenia.

15 In 2003 and 2004, I was on the

16 payroll of the Philadelphia Industrial

17 Development Corporation, working in

18 student retention. At that time, I was

19 also living in the City and enjoying its

20 many sublime amenities. When I wanted to

21 get somewhere, I used SEPTA, but when I

22 decided to start a marketing consulting

23 business, I knew getting somewhere in

24 business would require me to move out of

25 the City I had come to consider my

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 adopted home.

3 Given the Philadelphia taxes
4 revenue without regard to profit or loss,
5 the burden is significant for a
6 professional services firm, which may
7 begin with a few clients, but like your
8 neighbor down the street, Red Tettemer,
9 may eventually grow to employ 100 people
10 in highly compensated, professional
11 positions. These people would live in
12 Philadelphia, shop in Philadelphia and
13 possibly raise children in Philadelphia.

14 As I expand my consultancy into
15 a full-service ad agency, I cannot tell
16 you exactly how many people we will
17 employ or what our market cap will be,
18 but I can tell you that whatever
19 potential is here has been lost to New
20 Jersey. And for a City whom I personally
21 toiled to retain the creative class, it
22 is sad indeed that I must contradict my
23 own work and avoid Philadelphia as I
24 expand my business.

25 COUNCIL PRESIDENT VERNA: Thank

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 you very much.

3 Mr. Mifflin, so nice seeing you
4 again.

5 MR. MIFFLIN: Thank you very
6 much, Council President. It's very nice
7 to be here.

8 COUNCIL PRESIDENT VERNA: Thank
9 you.

10 MR. MIFFLIN: My name is
11 William E. Mifflin. I'm representing a
12 custom contract furniture manufacturer
13 this morning.

14 Tracey/Soltrace is a custom
15 contract furniture manufacturer in North
16 Philadelphia. We have a factory size of
17 about 30,000 square feet, and we're
18 relatively a small contractor employing
19 25 people. Twenty-four of those happen
20 to be Philadelphia residents.

21 As with most companies, and
22 especially with manufacturing, we are
23 constantly striving for a competitive
24 edge to ensure that our product will be
25 produced in the most economical and

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 efficient manner. We not only compete
3 with companies from the southern part of
4 the United States, but we're now
5 competing with international firms as
6 well.

7 We are a third-generation
8 furniture manufacturer, all in the state
9 of Pennsylvania, and our company was
10 moved to the North Philadelphia location
11 in the mid 1990s, with the support of
12 Councilman Clarke, along with others.

13 Essentially, I'm here today to
14 ask members of City Council to encourage
15 the economic vitality and growth of the
16 City by supporting legislation that would
17 systematically and equitably reduce the
18 present business privilege tax.

19 Specifically, we're asking City Council
20 and the City Administration to work
21 expeditiously and cooperatively to reduce
22 both the gross receipts and net income
23 portions of the BPT, provide a fixed
24 schedule of at least five years of
25 legislated cuts, and ultimately provide a

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 schedule to phase out this job-killing
3 tax.

4 I realize, perhaps more than
5 many other people or taxpayers or
6 businessmen, the difficulty and complex
7 challenges facing City Council as you
8 consider a City budget which must
9 maintain adequate and appropriate City
10 services for all our citizens. At the
11 same time, the business community is
12 requesting that you act boldly and
13 proactively to an existing problem that
14 will only get worse in the future unless
15 we take the necessary steps now to ensure
16 that our City continues to provide jobs
17 and attract new businesses.

18 A reduction and ultimately the
19 elimination of the BPT would enable our
20 company to hire additional employees from
21 our community to provide them and their
22 families with the opportunity to live,
23 work and contribute to our City in a
24 meaningful and productive manner. Given
25 the present tax structure of the City of

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 Philadelphia, it's very difficult for
3 businesses to consider expanding their
4 workforce, given the high cost of doing
5 business.

6 We are encouraged by the
7 Mayor's recent willingness to consider
8 short-term reduction to the BPT, but from
9 a planning perspective, businesses need
10 to know what we can anticipate in future
11 years regarding our tax burden.

12 Our company made a commitment
13 to move to Philadelphia in the mid 1990s.
14 We continue to invest in the City in many
15 ways, including street cleaning, graffiti
16 removal, weed removal on public property,
17 at our own expense. We wish to remain in
18 Philadelphia for the foreseeable future.
19 We are native Philadelphians who care
20 passionately about our great City and
21 want Philadelphia to succeed.

22 However, those responsible for
23 economic development in New Jersey are
24 frequently making inviting overtures to
25 relocate. This would obviously not be

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 our desire, but we must consider all
3 opportunities. We ask that you support
4 our efforts to remain a productive
5 partner as we contribute fiscally to the
6 improvement of our City.

7 Thank you for the consideration
8 of this important legislation and an
9 opportunity to appear before you today.

10 That concludes my formal
11 remarks. Thank you.

12 COUNCILWOMAN BLACKWELL: Thank
13 you very much.

14 Are there further questions
15 from Councilmembers?

16 MR. MANDEL: Madam Chair, if I
17 may.

18 COUNCILWOMAN BLACKWELL:
19 Certainly.

20 MR. MANDEL: I would be pleased
21 to talk to the Tax Reform Commission's
22 report, but I'm also joined by other
23 members of the Tax Reform Commission. Al
24 Taubenberger is here, Tom Forkin is here,
25 Drew VandenBrul is here and Stu Weintraub

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 is here. I would certainly encourage if
3 any of them have any different answers or
4 additional answers to any of the
5 questions that I tried to respond to
6 about our report, with your permission,
7 I'd be thrilled to ask any of them to
8 echo or add comments.

9 COUNCILWOMAN BLACKWELL: Thank
10 you.

11 MR. WEINTRAUB: Councilwoman
12 Blackwell, members of Council, my name is
13 Stewart Weintraub, and as Mr. Mandel has
14 stated, I was a member of the Tax Reform
15 Commission. I would like to respond to
16 the two questions that Councilwoman
17 Blackwell raised --

18 COUNCILWOMAN BLACKWELL: Thank
19 you.

20 MR. WEINTRAUB: -- to
21 Mr. Mandel. I will try to make my
22 answers a little bit more brief.

23 With respect to the
24 corporations not having to pay the
25 business privilege tax if it is repealed,

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 and we hope it is repealed, the corporate
3 officers, the owners of the corporations
4 are salaried employees of the
5 corporations. They pay wage tax. The
6 net profits tax is the self-employed
7 persons corollary to the wage tax. So
8 while the corporation itself under a
9 phase-out would not be paying the tax,
10 the individuals who work for the
11 corporation, including the owners of the
12 corporation, would still be paying the
13 wage tax and paying taxes to the City.

14 As far as the other question
15 concerning the real estate tax increase,
16 while it has been commonly said that the
17 Commission recommended raising the real
18 estate tax to fund tax reform, that is
19 not what the Commission report said. Let
20 me say that very clearly. We did not
21 recommend that. We were asked in our
22 charge to make tax reform recommendations
23 that were socially and fiscally
24 responsible. So that when we made our
25 recommendations to reform the tax

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 structure, we also laid out a roadmap of
3 various options that City Council could
4 consider to fund the tax reform.

5 In our report, what we
6 basically said was, if everything else
7 failed, Council could look to the real
8 estate tax, but there were many, many
9 other sources of funding for tax reform
10 that was in the recommendations of the
11 Tax Reform Commission that would have
12 precluded the necessity of looking at the
13 real estate tax.

14 Also, unrelated to responding
15 to the questions, I would like to just
16 bring one other --

17 COUNCILWOMAN BLACKWELL: Excuse
18 me, Mr. Weintraub. We have a point of
19 order before you continue.

20 Councilman Nutter.

21 COUNCILMAN NUTTER: Thank you,
22 Madam Chair.

23 I made the point at this
24 moment. I think Mr. Weintraub is about
25 to go into Bill 14?

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 MR. WEINTRAUB: No. That's a
3 separate panel.

4 COUNCILWOMAN BLACKWELL: He was
5 responding to questions I had asked. I
6 had one follow-up as well.

7 COUNCILMAN NUTTER: I
8 understand.

9 Mr. Weintraub, I thought you in
10 your explanation -- and I know you're
11 trying to respond quickly, but I think it
12 bears repeating and a bit of a slowing
13 down. Let's talk about the net income
14 portion of the business privilege tax as
15 it relates to sole proprietors and
16 partners.

17 COUNCILWOMAN BLACKWELL: Excuse
18 me, Councilman Nutter.

19 COUNCILMAN NUTTER: Yes.

20 COUNCILWOMAN BLACKWELL: That's
21 exactly my line as well, because you
22 responded to the wage tax issue, but we
23 asked you about the business privilege
24 aspect of them, not the wage tax part.

25 And Councilman Nutter --

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 COUNCILMAN NUTTER: That's
3 fine.

4 COUNCILWOMAN BLACKWELL: -- can
5 certainly follow up in more detail.

6 COUNCILMAN NUTTER: Absolutely.

7 MR. WEINTRAUB: Councilwoman,
8 would you like me to wait for Councilman
9 Nutter's question or to respond?

10 COUNCILMAN NUTTER: No; take
11 the Chair's question. That's fine.

12 MR. WEINTRAUB: Let me try to
13 restate what I said, because I believe I
14 was responding to your question,
15 Councilwoman.

16 The corporations, if they are
17 not paying business privilege tax as an
18 entity, the corporate officers, who are
19 the owners of those corporations, are
20 still paying wage tax, and that wage tax
21 is the profits of the corporation that is
22 being paid to the corporate officers.
23 The profits of the corporation being paid
24 to the corporate officers are paying wage
25 tax.

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 Most of your corporations in
3 Philadelphia today, what they should be
4 doing if they're not doing is paying out
5 the profit of the corporation as salary
6 to their owners. That way, they pay no
7 net income tax on the business privilege
8 tax and they're paying wage tax. But
9 many of them don't do that, and they wind
10 up paying the higher business privilege
11 tax instead of the wage tax. And that's
12 what I was trying -- the point I was
13 trying to make.

14 COUNCILWOMAN BLACKWELL:

15 Councilman Nutter.

16 COUNCILMAN NUTTER: Thank you,
17 Madam Chair.

18 I think part of this discussion
19 in its explanation revolves around the
20 intermingling of terms.

21 Mr. Weintraub, when you talk
22 about corporate entities and their
23 officers, some may pay the regular
24 commonly known, for instance, resident
25 wage tax rate, which we know to be four

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 point something. The net income portion
3 of the business privilege tax, which I
4 want to make sure that we're narrowly
5 focused on that, is a higher rate --

6 MR. WEINTRAUB: That's correct,
7 six and a half percent.

8 COUNCILMAN NUTTER: -- than the
9 wage tax.

10 MR. WEINTRAUB: That is
11 correct.

12 COUNCILMAN NUTTER: So who
13 actually pays the net income portion of
14 the business privilege tax?

15 MR. WEINTRAUB: Any corporation
16 that has a profit where the profit is not
17 paid out to the owners of the corporation
18 as salaries.

19 COUNCILMAN NUTTER: Could you
20 give an example?

21 MR. WEINTRAUB: Well, many of
22 your publicly traded companies, they
23 would not be necessarily paying out all
24 their profits to the officers because
25 they have a responsibility to their

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 shareholders, but where the shareholders
3 of the corporation are the officers of
4 the corporation and are the owners of the
5 corporation, are operating the
6 corporation, many of these small
7 corporations that Councilman DiCicco
8 asked about a moment ago, these S
9 corporations, they should not be paying
10 the net income portion of the business
11 privilege tax if they are paying out the
12 profit in the form of salaries to the
13 officers. Unfortunately, many of them
14 don't do that, because for federal
15 purposes, there is no distinction between
16 the wages and the corporate profit. For
17 an S corporation, they're taxed the same.

18 COUNCILMAN NUTTER: How about
19 sole proprietorships and partnerships?

20 MR. WEINTRAUB: Sole
21 proprietors and partners, well, they pay
22 the net profits tax and they pay the
23 business privilege tax, and they get a
24 credit --

25 COUNCILMAN NUTTER: Are you

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 saying that they pay the net income
3 portion of the business privilege tax and
4 the gross receipts portion?

5 MR. WEINTRAUB: Yes, they do,
6 and they also pay the net profits tax,
7 but they get a credit on the net profits
8 tax for a portion of the net income part
9 of the business privilege tax.

10 COUNCILMAN NUTTER: And is that
11 at a rate that's higher than the regular
12 resident wage tax?

13 MR. WEINTRAUB: The business
14 privilege tax rate is, yes.

15 COUNCILMAN NUTTER: So is it
16 fair to say that notwithstanding
17 continued reductions in the gross
18 receipts portion of the business
19 privilege tax, there are some business
20 owners, small, medium and large, who end
21 up paying a net income rate that is
22 higher than the regular residential wage
23 tax rate?

24 MR. WEINTRAUB: Yes.

25 COUNCILMAN NUTTER: Is it fair

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 to say that the net income portion of the
3 business privilege tax, which has not
4 changed and it's presently at 6.5
5 percent, has a negative effect on
6 businesses, depending on how your
7 business is set up, even if you are a
8 small business versus a large business?

9 MR. WEINTRAUB: Councilman, I
10 believe the answer to that is yes. I
11 think we've heard much testimony about
12 that from actual business operators who
13 have said just that.

14 COUNCILMAN NUTTER: Okay.
15 Thank you.

16 Thank you, Madam Chair.

17 COUNCILWOMAN BLACKWELL: Thank
18 you very much.

19 I have one comment, then I'll
20 call Councilman Clarke.

21 Your Tax Reform Commission
22 document, and I read per quote, "Increase
23 property tax revenues. If all other
24 revenue-generating options fail and there
25 is no other way to fund the package of

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 tax reform, the City could increase
3 property tax rates. Evidence suggests
4 that shifting from local business and
5 wage taxes to property-based taxes will
6 result in substantial increases in jobs,
7 resident incomes, business activity and
8 property values," end of quote.

9 Now, we're trying to keep our
10 residential community intact. We don't
11 want to lose more people than we have in
12 the past. None of us does. So I don't
13 understand how you favor increasing
14 property taxes for everyone when we run
15 the risk of losing our population base.

16 MR. MANDEL: Madam Blackwell,
17 if I may.

18 COUNCILWOMAN BLACKWELL:
19 Certainly.

20 MR. MANDEL: The Tax Reform
21 Commission's three-volume, 500-page
22 report certainly says a lot more than
23 that one paragraph, and I would direct
24 you to read the previous couple of
25 paragraphs where we offer other

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 recommendations in terms of where the
3 City can find revenues to handle any
4 short-term gaps that there might be from
5 a tax reduction.

6 COUNCILWOMAN BLACKWELL: Why
7 don't you just answer. We all know
8 you're smart. We all know you --

9 MR. MANDEL: The Tax Reform
10 Commission --

11 COUNCILWOMAN BLACKWELL: Why do
12 you do things like that? Why don't you
13 just respond to our question? We all
14 know you're a smart guy.

15 MR. MANDEL: The Tax Reform
16 Commission suggested that any shortfalls
17 in revenue in the short run could be made
18 up by finding some of the revenue that we
19 don't collect in outstanding taxes --

20 COUNCILWOMAN BLACKWELL: Nor
21 should you tell us what we could read.
22 We know that, don't you think,
23 Mr. Mandel?

24 MR. MANDEL: Madam Blackwell,
25 you read one paragraph of the Tax Reform

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 Commission's three-volume 500-page report
3 to make it seem as if we're suggesting
4 that we should raise the tax --

5 COUNCILWOMAN BLACKWELL: No.
6 This is your document. I quoted your
7 document. If it can't be quoted --

8 Thank you, Mr. Weintraub.
9 Maybe if Mr. Weintraub commented, we
10 could get a little further, because his
11 attitude is more friendly. Thank you.

12 MR. WEINTRAUB: Councilwoman,
13 what you read is exactly what I said. At
14 the beginning of the paragraph you read,
15 it said, if all else failed to help fund
16 the services necessary for the City that
17 the Tax Reform recommendations would
18 yield, then you could look towards the
19 real estate tax.

20 Now, all of the data that was
21 in the report from the Commission, if you
22 look at, I think it was, the second
23 volume -- what you're reading from is the
24 first volume, which was just the
25 recommendations. The third volume had

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 all of the reports that we relied upon.
3 In that third volume, among the
4 information provided to the Commission
5 was that by lowering the business taxes,
6 by lowering the wage tax, we're going to
7 create jobs in the City. By creating
8 jobs in the City, a corollary to the
9 creation of jobs in the City would be an
10 increase in the value of real estate.

11 At current rates, without
12 changing rates at all, if the value of
13 the real estate increased, that would
14 generate additional real estate tax
15 revenue to the City. We didn't recommend
16 that that happen, because City Council
17 has the right to come in and adjust that
18 rate downward to compensate for the
19 increase in the value of the real estate.

20 But, again, as you read, which
21 confirmed what my original statement was,
22 this was an absolute last resort in the
23 event all of the other ideas that the
24 Commission put forward to help fund tax
25 reform failed.

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 MR. MANDEL: Would you like to
3 say any of the other recommendations we
4 have?

5 COUNCILWOMAN BLACKWELL: Thank
6 you.

7 Councilman Clarke.

8 COUNCILMAN CLARKE: Thank you,
9 Madam Chair.

10 I just wanted the record to be
11 specific as it relates to real estate
12 taxes. Mr. Weintraub, I guess I'll ask
13 you this question because you brought it
14 up. Are you referring to the
15 recommendation, Recommendation 7, the
16 budget-based property taxation?

17 MR. WEINTRAUB: I don't have
18 the report.

19 COUNCILMAN CLARKE: It
20 essentially says that the Commission
21 recommends creating a system of
22 budget-based property taxation by
23 legislatively obligating the Mayor and
24 Council to determine all annual real
25 estate taxes after setting the budget and

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 reviewing the assessments; therefore,
3 maintaining stable revenue.

4 Essentially, we set a budget.
5 If there is any shortfalls in the budget,
6 then address the revenue associated with
7 real estate taxes to either stem the
8 increases or increase it to fill any
9 potential budget gaps.

10 MR. WEINTRAUB: Councilman
11 Clarke, the recommendation you're reading
12 from is a different one from the one that
13 Councilwoman Blackwell was reading from.
14 Councilwoman Blackwell was reading from
15 the section where we were talking about
16 how to fund the revenue shortfall that
17 the wage and business tax cuts would
18 generate. What you are reading from is
19 one of the recommendations that the
20 Commission made to reform the overall
21 real estate tax system that the City
22 currently has in place.

23 COUNCILMAN CLARKE: Right.

24 MR. WEINTRAUB: And to that
25 question, I think it's a question of

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 fundamental fairness. Right now the way
3 the real estate tax system works -- this
4 is the background to why that
5 recommendation is there.

6 COUNCILMAN CLARKE: Let me stop
7 you there, if I can. The reason I'm
8 referencing it is because you tie it to
9 the budget, and I remember at the time,
10 there were some concerns that if there
11 were any budget shortfalls, although you
12 didn't specifically have that language in
13 the recommendation, that potentially if
14 there was a budget shortfall, you can
15 increase the revenue from real estate to
16 fill the budget shortfall, because at
17 that time, the budget was a big part of
18 the discussion. You had the pro and con
19 tax cut, and people were concerned that
20 if you continue to cut the budget as it
21 relates to workforce and other things and
22 expenditures on the City, that we would
23 make it up on the real estate side.

24 You've answered the first part
25 of my question, you're not referencing

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 the same thing, but the second part is,
3 do you continue to --

4 MR. WEINTRAUB: Well, Council
5 can always adjust any budget shortfall by
6 looking at the real estate tax rate.
7 That's nothing new. I mean, I'm not
8 telling you anything you don't already
9 know about that.

10 COUNCILMAN CLARKE: It's a
11 recommendation, though.

12 MR. WEINTRAUB: The
13 recommendation was really a question of
14 fairness in the system itself.

15 The way the system currently is
16 in place, the assessments themselves are
17 coming out after this Council does the
18 budget and fixes the rate. So when the
19 assessments come out -- and you'll
20 remember back -- it was 2002 or I think
21 it was summer 2003 when this Council was
22 inundated by constituents who had very
23 large assessments coming up after you had
24 done the budget, and they were getting
25 large tax increases, because their values

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 of their property were being adjusted
3 upward by the Board of Revision of Taxes.

4 What that recommendation was
5 designed to achieve was, let the
6 assessment process do its thing before
7 you do the budget, so that when you do
8 the budget and you fix the rates for the
9 real estate taxes, you can compensate for
10 any increase or decrease in value that
11 the Board of Revision of Taxes might
12 have. That way, this Council is fixing
13 the rate as needed to compensate for
14 valuation adjustments, and that's what
15 that recommendation that you read was
16 intended to adjust.

17 COUNCILMAN CLARKE: But you
18 understand it could be construed as a
19 potential budget gap filler?

20 MR. WEINTRAUB: I understand it
21 can be construed that way, but that's not
22 what was recommended.

23 COUNCILMAN CLARKE: That's not
24 what was intended, okay.

25 MR. WEINTRAUB: I believe the

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 report expresses itself as this is
3 clearly a question of trying to make the
4 system more visible, more clear to be
5 clearly understood and fair to the
6 constituents, fair to the residents of
7 the City.

8 COUNCILMAN CLARKE: Okay. All
9 right. Thank you.

10 Thank you, Madam Chair.

11 COUNCILWOMAN BLACKWELL: Thank
12 you, Councilman.

13 Councilman Kelly.

14 COUNCILMAN KELLY: Yes. Thank
15 you, Madam Chair.

16 COUNCILWOMAN BLACKWELL:
17 Certainly.

18 COUNCILMAN KELLY:
19 Mr. Weintraub, Mr. Mandel, maybe you
20 could answer this. As you well know, I'm
21 sure it's no secret that we have a
22 surplus of approximately about \$160
23 million. Mainly it's due to the increase
24 in revenue in the business privilege
25 taxes, as well as the increased revenue

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 from the real estate transfer tax.

3 Now, I'd just like to know, if
4 we do nothing on these bills whatsoever,
5 do you anticipate that we would still be
6 generating the same amount of money or
7 the same revenue if we do nothing with
8 these bills?

9 MR. WEINTRAUB: I can't
10 forecast. I'm not an economist,
11 Councilman. I can't forecast what
12 businesses will do from the standpoint of
13 increased profits, increased revenue,
14 increased jobs, more real estate turning
15 over. Right now the real estate market
16 in Center City seems to be still
17 flourishing.

18 I understand the Administration
19 in its budget has projected increases,
20 continued increases, in those revenues.
21 I would hope they would, but I can't
22 forecast that. That's not my expertise,
23 if I might cop out on you.

24 MR. MANDEL: I would add that
25 based on our work that we performed for

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 the Tax Reform Commission, certainly all
3 of the people that you heard from here
4 today, there is nothing that we should
5 expect in Philadelphia if we don't do
6 something about our business tax
7 structure that would be anything aside
8 from we will continue to lag
9 economically.

10 The nation right now is growing
11 jobs. The region right now is growing
12 jobs. The City of Philadelphia continues
13 to lose jobs. When the nation and region
14 grow, we should be growing. We will
15 continue to lag economically unless we
16 address this problem.

17 COUNCILMAN KELLY: In other
18 words, what you're saying, in effect, is,
19 if we continue to receive surpluses, what
20 we may do with those surpluses is to
21 reduce taxes, which would generate
22 additional revenue for the City.

23 MR. MANDEL: Well, certainly
24 that's what has happened in each of the
25 last 11 years that we've been reducing

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 tax rates. We have been increasing tax
3 revenues. Mr. Weintraub has something
4 illuminating on that subject.

5 MR. WEINTRAUB: If I can just
6 add to what Mr. Mandel just said. Last
7 week, on February 21st, Pennsylvania
8 Revenue Secretary Gregory Fajt testified
9 before the House Appropriations Committee
10 on the Commonwealth's budget, and I have
11 a copy of his testimony with me. If I
12 could just read a couple of sentences
13 from his testimony, I think it will be
14 helpful to this Council.

15 After saying that the
16 Governor's proposal called for a fourth
17 straight year of tax reductions, business
18 tax reductions, Secretary Fajt went on to
19 say, "I am also pleased to report that
20 Pennsylvania's lower business taxes,
21 along with a \$2 billion economic stimulus
22 program that you helped develop," meaning
23 the General Assembly, "are jump-starting
24 Pennsylvania's economy. In 2002, we
25 ranked 41st out of the 50 states in

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 employment growth. Today we are 15th.
3 Our unemployment rate is below five
4 percent for the first time since 2001,
5 and most important of all, 120,000 new
6 jobs have been created in Pennsylvania
7 since February 2003."

8 COUNCILMAN KELLY: How many
9 jobs?

10 MR. WEINTRAUB: 120,000. "In
11 the same time frame, Philadelphia has
12 lost jobs."

13 So there was more than 120,000
14 jobs created elsewhere in the state, and
15 Philadelphia's loss of jobs brought that
16 down to 120,000.

17 COUNCILMAN KELLY: Thank you.

18 Thank you, Madam Chair.

19 COUNCIL PRESIDENT VERNA: The
20 Chair recognizes Councilman Goode.

21 COUNCILMAN GOODE: Thank you,
22 Madam Chair.

23 Mr. Weintraub and Mr. Mandel, I
24 want to go back to a question that
25 Councilwoman Blackwell asked. I believe

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 that as wordy as you tried not to be,
3 still there's a simple way to present
4 this question. I'd like to address it in
5 two ways. The first being, is it safe to
6 say that the Tax Reform Commission
7 concluded that businesses and workers
8 were overtaxed and that property owners
9 were undertaxed?

10 MR. WEINTRAUB: I don't
11 think -- I don't believe we said that.

12 COUNCILMAN GOODE: I didn't ask
13 whether you said that. I asked whether
14 you concluded that.

15 MR. WEINTRAUB: I don't believe
16 we concluded that either, Councilman.

17 COUNCILMAN GOODE: Well, then
18 let me ask the question a different way.

19 Wage tax cuts are locked in; is
20 that correct?

21 MR. WEINTRAUB: This Council
22 has now enacted ordinances to reduce the
23 wage tax over a period of time, yes.

24 COUNCILMAN GOODE: They're
25 locked in to 2015; is that correct?

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 MR. WEINTRAUB: I believe
3 that's the year. I don't remember the
4 exact year.

5 COUNCILMAN GOODE: The Tax
6 Reform Commission recommended that we
7 lock in business tax cuts, and your
8 preferred approach is to eliminate
9 business tax cuts on a schedule that
10 would go to 2015 or '16 or '17; is that
11 correct?

12 MR. WEINTRAUB: The
13 recommendation back in 2003 was for a
14 ten-year cut, which would have taken it
15 to 2015, I believe, and now we're a
16 couple years down the road.

17 COUNCILMAN GOODE: So while we
18 would lock in wage tax cuts to 2015, lock
19 in business tax elimination 2015, 2016,
20 2017, we would then have to adjust or
21 potentially adjust the real estate tax
22 rate based upon assessments possibly on
23 an annual basis?

24 MR. WEINTRAUB: No. I disagree
25 with your statement, Councilman. Number

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 one, at the time the Commission rendered
3 its report, there were substantial
4 issues, as Mr. Mandel indicated in his
5 original testimony, of how do we fund it.
6 Today there's a \$140 million surplus in
7 the budget. So the question of how you
8 fund it is not the issue anymore.

9 COUNCILMAN GOODE: So the point
10 at which we complete the full valuation
11 project, if it is completed and completed
12 to our satisfaction, that beyond just
13 going to full valuation, that those
14 properties that were underassessed are
15 more fairly assessed and those properties
16 that were overassessed are more fairly
17 assessed, are you suggesting that we lock
18 in a property tax rate, the same as
19 you're suggesting we lock in wage tax
20 rates and business tax rates?

21 MR. WEINTRAUB: I'm suggesting
22 that when you go to full valuation, this
23 Council has an obligation to adjust the
24 rate to reflect what is needed.

25 COUNCILMAN GOODE: I understand

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 Alternatively, the value of
3 real estate might go down, and to
4 maintain the same amount of revenues, you
5 might look at adjusting the rates.

6 So if you create a system that
7 says we're going to be reducing the wage
8 tax rate, we're going to be reducing the
9 business tax rate, if the City is going
10 to maintain its overall revenues, one of
11 the places that you're going to be
12 needing to look is real estate tax.

13 COUNCILMAN GOODE: Workers and
14 businesses could be making more money.
15 You're not suggesting that we adjust the
16 rate based upon making more money, are
17 you?

18 MR. MANDEL: If workers and
19 residents are making more money, that
20 should be reflected in the value
21 specifically of commercial real estate.
22 If the value of commercial real estate
23 goes up, we can tax the value of that
24 commercial real estate.

25 COUNCILMAN GOODE: This is a

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 debate that we can keep simple or not,
3 that in fact you're asking us to lock in
4 wage tax rates, to lock in business tax
5 rates, but not to lock in property tax
6 rates, and your basis for that is that
7 the value of property shifts, but
8 corporate profits shift. The bottom line
9 is income.

10 MR. WEINTRAUB: Councilman, I
11 understand your question, and from a
12 policy standpoint, that's the decision
13 this Council has to make, and, candidly,
14 I don't have a problem with it. It's not
15 one of the recommendations that was made,
16 but I don't have a problem with this
17 Council doing that.

18 COUNCILMAN GOODE: I'm
19 contemporizing the discussion and asking
20 right now, since we've already locked in
21 wage tax rates and since this panel is
22 specifically telling us to end it, not
23 just mend it, to eliminate the business
24 tax over a long-term schedule and to lock
25 it in and address the Councilwoman

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 Blackwell's question, isn't that based
3 upon increased property tax revenue,
4 increased property tax values and our not
5 locking in a property tax rate?

6 MR. WEINTRAUB: I don't think
7 so. If you look at the history, the
8 current rates on real estate taxes in
9 this City have been the same for the last
10 15 years. So if 15 years ago this
11 Council had chosen to lock in the current
12 rate that it is today and which have been
13 in effect for the last 15 years, we'd be
14 in the same financial position today that
15 we are.

16 COUNCILMAN GOODE: Well, we
17 would not if those properties that were
18 being underassessed were fairly assessed.

19 MR. WEINTRAUB: The whole
20 question of fair assessment. Fairness in
21 the assessment process is a different
22 issue from funding the budget. I mean,
23 the assessment system should be fair in
24 the first instance. It should be a fair
25 system. That's one of the reasons why

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 the Commission was created, to recommend
3 a fair system of taxation for the City,
4 not just business taxes. We were charged
5 with the responsibility of making
6 recommendations for the entire City tax
7 structure, and that's why we looked at
8 real estate taxes. And what we concluded
9 when we looked at real estate taxes was
10 that the system itself was not
11 functioning fairly.

12 COUNCILMAN GOODE: Let me ask
13 this question. I think it is fair to ask
14 in the context of what Councilwoman
15 Blackwell was trying to get to. Is it
16 the position of this panel that once full
17 valuation is done, that we should make it
18 revenue neutral to the City's Five-Year
19 Financial Plan?

20 MR. WEINTRAUB: I think that's
21 absolutely what this Council should do.

22 COUNCILMAN GOODE: Thank you.

23 COUNCIL PRESIDENT VERNA: The
24 Chair recognizes Councilman Clarke.

25 COUNCILMAN CLARKE: Thank you,

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 Madam President.

3 Mr. Weintraub, what was the
4 time frame you referenced on the increase
5 of jobs in Pennsylvania?

6 MR. WEINTRAUB: 2003.

7 COUNCILMAN CLARKE: 2003 to
8 current?

9 MR. WEINTRAUB: Yes.

10 COUNCILMAN CLARKE: And that
11 was 120 --

12 MR. WEINTRAUB: 120,000.

13 COUNCILMAN CLARKE: I'm not
14 going to ask you this question, because
15 you're probably not the person that
16 should be answering it. One of the
17 things I want to find out, this issue
18 about reduction in City workforce, and
19 it's been, I don't know, between 1,500
20 and 2,000, and somehow during the course
21 of the discussion, it never really rises
22 to the level. Because I think that the
23 City municipal jobs are extremely
24 important, given the fact that they're
25 traditionally decent-paying jobs and

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 they're residents of the City of
3 Philadelphia and they pay a higher rate
4 as it relates to wage tax. And somehow
5 that never seems to factor in the loss of
6 jobs as it relates to the City.

7 I'll ask you the question. If
8 you don't know it, I will understand.

9 What percentage of the job
10 reduction in the City of Philadelphia can
11 be attributed to the reduction in the
12 municipal workforce?

13 MR. WEINTRAUB: I don't know
14 the answer to that question, but I know
15 that from the numbers that I have been
16 told over the years, it has been much
17 larger than the 1,500 to 2,000 jobs.
18 We're looking at like 10,000 jobs a year.
19 Each year 10,000 jobs or more have been
20 lost.

21 Governor Schweiker in his
22 testimony last year before this Council
23 when we were discussing the budget, you
24 recall there was a chart over in the
25 corner there showing the jobs lost in the

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 City and it was five figures each year.

3 COUNCILMAN CLARKE: Did he
4 categorize the types of jobs? Was it
5 that level of specificity?

6 MR. WEINTRAUB: That, I can't
7 answer.

8 COUNCILMAN CLARKE: Okay.
9 That's all right. Thank you.

10 Thank you, Madam President.

11 COUNCIL PRESIDENT VERNA:
12 You're welcome.

13 The Chair recognizes
14 Councilwoman Blackwell.

15 COUNCILWOMAN BLACKWELL: Thank
16 you, Madam President.

17 With regard to the old issue of
18 tax cuts and the wage tax issue and real
19 estate issue, we note that none of the
20 major corporations we're talking about --
21 and I mention this to the panel -- the
22 Wal-Mart, the Sun Oil, SmithKline, all of
23 these folks who are expected to get and
24 who you say need a big tax break, but
25 none of them testified that if we cut

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 taxes, they're going to hire our City
3 residents.

4 So do you somehow have some
5 assurances where we are with regard to
6 that? Because if the whole issue is
7 increasing jobs and that that will help
8 increase our economy, what assurances can
9 we have that that will take place?

10 MR. MANDEL: I think when
11 you're looking at the issue of cutting
12 taxes, the big firms come into City Hall
13 and get what they want whenever they want
14 it. If they want a tax break, they get a
15 tax break. If they want a tax
16 rebuilding, they seem to be able to get a
17 tax rebuilding.

18 The panels that we brought for
19 you today were small employers, people
20 that can't walk into City Hall and ask
21 for a break, people who can't walk into
22 the Governor's office and ask for
23 something special.

24 The gentleman who started off
25 our testimony would be in Philadelphia

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 but for the business privilege tax and
3 his 300 jobs.

4 COUNCILWOMAN BLACKWELL: I
5 believe that you brought these people in
6 to try to give us the impression that you
7 don't only speak for special interests
8 and large businesses, but that you do in
9 fact have some interest in small
10 businesses, which I really don't believe
11 you have any interest in. So I think you
12 try to give us a different impression of
13 who you are and what you believe than
14 what you do.

15 So I would suggest that you let
16 Mr. Weintraub answer for me, and I'll
17 probably feel that he has an overall view
18 and an overall interest in understanding
19 of our City's views and where we're
20 trying to go and not just his personal
21 interest and view.

22 MR. MANDEL: With all due
23 respect, what is it that Philadelphia
24 Forward has done to give you the
25 impression that we speak for large

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 businesses? The Tax Reform Commission
3 released its report. Philadelphia
4 Forward formed and created our
5 organization, and we have directed people
6 toward you. You have received e-mails,
7 faxes, phone calls, letters from business
8 owners and residents across the City. To
9 my knowledge, the largest of businesses
10 have not used our conduits to connect
11 with you.

12 COUNCILWOMAN BLACKWELL:
13 Mr. Mandel, you've Xeroxed things and had
14 everybody sent us the same e-mail. We've
15 been around too long not to recognize
16 that, if you want to say that, if that's
17 your response. Everybody knows when you
18 get a rode answer, when it's passed
19 around and everybody is told to send it
20 in. That's nothing new. That doesn't
21 mean we have a varied view by everybody.

22 MR. MANDEL: Each of the
23 employers that we brought to you today
24 had a different story, had a compelling
25 story. We really took no effort at all

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 to find them. These are people who
3 contact us and say, My goodness, this
4 business privilege tax is a terrible
5 thing, how can we help you. I say, Come
6 tell your story to City Council.

7 COUNCILWOMAN BLACKWELL: I
8 would ask that Mr. Weintraub respond to
9 my question about the issue of jobs and
10 Philadelphia residents and large
11 corporations in our City, because you
12 have not begun to respond to that, and I
13 would ask him that he respond to my
14 concern.

15 MR. WEINTRAUB: Councilwoman, I
16 cannot sit here today and tell you where
17 the jobs would be, whether they would be
18 in the Wal-Mart's, the Sun's, the Comcast's
19 of our City or whether it would be small
20 neighborhood businesses. I mean, that
21 would be impossible for me or I think
22 anyone else in this room to answer that
23 question.

24 All I can say to you is that if
25 you cut -- if the business privilege tax

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 is repealed totally, and we've recognized
3 on a phase-out or a scheduled reduction
4 in the rates, we feel extremely confident
5 that there will be an increase in jobs.
6 I think the Pennsylvania Revenue
7 Secretary's statement is indicative of
8 that and supports our feeling on that.

9 But to say to you that Company
10 A or Company B is going to be the one to
11 create those jobs, I mean, that would --
12 if I were to say that, I'd be lying to
13 you, and I won't do that.

14 COUNCILWOMAN BLACKWELL: Thank
15 you, Madam President.

16 COUNCIL PRESIDENT VERNA:
17 You're welcome.

18 The Chair recognizes Councilman
19 Ramos.

20 COUNCILMAN RAMOS: Thank you,
21 Madam President.

22 I feel just a little bit like
23 Councilman Kenney, though I think now I'm
24 tuned in a little bit better than I was
25 earlier where we're at on this

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 discussion, or at least in a formatted
3 way. So I would like, for the sake of
4 clarity, if Mr. Mandel would tell us or
5 tell me where you stand on these
6 following bills, whether you're for or
7 against them. There are five of them
8 that we're taking up today. Or if your
9 organization does not have a position, I
10 will accept that reply as well.

11 Bill No. 060006, where do you
12 stand on that bill?

13 MR. MANDEL: If you amend it to
14 cut the gross receipts side and the net
15 income side and provide a fixed
16 legislated schedule to eventually phase
17 out the business privilege tax, we're all
18 for it.

19 COUNCILMAN RAMOS: Okay. If
20 you were giving that answer to Jannie
21 Blackwell, she'd be all over your case
22 right now.

23 MR. MANDEL: I don't know what
24 I could say that would --

25 COUNCILMAN RAMOS: If it stands

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 the way it is before us, how would you
3 vote? What would be your position?

4 MR. MANDEL: On?

5 COUNCILMAN RAMOS: 060006.

6 MR. MANDEL: As it stands
7 before you, if I had to vote on this and
8 nothing else?

9 COUNCILMAN RAMOS: No, not
10 vote. What's your position on it?

11 MR. MANDEL: Our position is,
12 it should be amended.

13 COUNCILMAN RAMOS: So you would
14 not be for it the way it stands?

15 MR. MANDEL: I would certainly
16 be much more for it if it were amended.

17 COUNCILMAN RAMOS: You would
18 not be for it the way it stands, right?
19 So that's a no, unless it's amended. All
20 right. How about 060007?

21 MR. MANDEL: Which one is that?

22 COUNCILMAN RAMOS: We refer to
23 it as the Cohen bill.

24 MR. MANDEL: For that.

25 COUNCILMAN RAMOS: You're for

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 that bill? It strikes me quite ironic
3 you stand -- you seem to have been taken
4 aback by the idea that you only represent
5 big business interest, but the only thing
6 here that actually helps, although there
7 will be debate on it, helps the working
8 poor, you seem to be in favor of the
9 repeal.

10 MR. MANDEL: As I answered your
11 question earlier, from the work on the
12 Tax Reform Commission, the idea of
13 creating a low-income tax credit locally
14 sounds like it helps the vast majority of
15 low-income workers, but the research
16 shows that those kind of programs only
17 help some low-income workers.

18 Our recommendation from the Tax
19 Reform Commission was to fund efforts
20 through the Greater Philadelphia Urban
21 Affairs Coalition to dramatically expand
22 the reach of those programs so they're
23 getting to people who right now don't get
24 the benefit of those tax programs, as
25 opposed to create more tax programs that

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 will only be accessed by a small
3 percentage of low-income residents.

4 COUNCILMAN RAMOS: But you
5 leave an impression that you're for all
6 this tax reduction, wage tax at all the
7 levels, but when it comes to furthering
8 the wage tax reductions, something that's
9 already in law, that you're not for, so,
10 therefore, you support the repeal of that
11 bill.

12 MR. MANDEL: Well, I'm sorry if
13 we create an impression that we're not
14 trying to create, but fundamentally, if
15 we're going to try to create jobs in the
16 City, we want to phase out the business
17 privilege tax. If we want to encourage
18 residents of all income level to prosper
19 in the City, we should be reducing the
20 wage tax. Those are the fundamental
21 conclusions of the Tax Reform Commission.

22 If we want to specifically help
23 low-income residents in the City, our
24 recommendation was not that we should
25 create a program that helps, again, a

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 certain portion who are already being
3 helped by federal and state programs. We
4 should try to expand the reach of those
5 federal and state programs, the money
6 that's left on the tables, literally
7 dozens of millions of dollars, that could
8 be going into the hands of low-income
9 residents in the City of Philadelphia,
10 but because they're not able to access
11 the Earned Income Tax Credit and because
12 they're not able to access the state's
13 equivalent of that, that money goes
14 uncollected.

15 COUNCILMAN RAMOS: You don't
16 think there's a benefit in reducing wage
17 tax for the working poor, meaning people
18 under \$15,000 a year? I see them a lot
19 in my office. Don't you think that gives
20 them an opportunity to pay a bill that
21 they might not be able to pay because the
22 wage tax is too much for them?

23 MR. MANDEL: Absolutely, but,
24 remember, the mechanism to do that as
25 created by law would be to create another

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 exclude them from paying taxes because of
3 extreme poverty. Basically, the point of
4 those tax credits is to suggest that they
5 don't make enough money to pay taxes. To
6 suggest that that shouldn't be the case
7 on the local level because of a state and
8 federal tax credit doesn't make a whole
9 lot of sense to me, but on top of that,
10 to suggest that that should not happen
11 because the state and federal tax credits
12 are underused still doesn't make sense,
13 because those people who are taking
14 advantage of the state and federal tax
15 credit should also have a local credit.
16 And so what you're denying then by asking
17 for or supporting a repeal of that is
18 saying those people who are being
19 suggested that they take advantage of the
20 state and federal tax, you're taking away
21 a local credit as well and acting as if
22 they couldn't use it, acting as if they
23 are not in extreme poverished conditions.

24 MR. MANDEL: They absolutely
25 could use it, but I think that when we

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 looked at what we could do tax-wise with
3 tax policy as part of the Tax Reform
4 Commission, we thought we could do more
5 to help low-income individuals by
6 creating jobs and by creating
7 across-the-board wage tax cuts that will
8 help everybody and affect everybody
9 whether or not they apply for it or not.

10 Again, it was our experience in
11 looking at what has been the experience
12 with the federal EITC and the state level
13 credit that when our advisors came to us
14 and said what's happening with those
15 programs, we said we could offer this
16 program and it would make some people
17 very happy, but it just won't reach
18 fundamentally a lot of people. We wanted
19 to expand the reach of the programs that
20 aren't reaching them.

21 COUNCILMAN GOODE: But people
22 who are taking advantage of the state and
23 federal credit need the local credit as
24 well. They are that poor.

25 MR. MANDEL: I don't disagree.

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 COUNCILMAN GOODE: Then why are
3 you supporting a repeal of it?

4 MR. MANDEL: Well, I'm actually
5 not supporting necessarily anything. You
6 asked my opinion on the bill.

7 COUNCILMAN GOODE: The question
8 was asked of you by two or three
9 different people, do you support the
10 repeal of the Cohen bill or not.

11 MR. MANDEL: Fair enough.
12 Because we think we can do much more with
13 tax policy by creating jobs and by
14 expanding the reach of the federal --

15 COUNCILMAN GOODE: So you can
16 shift tax relief to someone else other
17 than extremely poor people?

18 COUNCILMAN RAMOS: Or defend
19 the business community at all costs.

20 COUNCILMAN GOODE: Thank you,
21 Madam President.

22 COUNCILMAN RAMOS: All right.
23 I'm a big defender of the business
24 community, but I'm not a defender of the
25 business community at all costs,

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 especially when we have obligations to
3 other sectors of our population.

4 How about Bill No. 060089? Is
5 your organization in favor of that or
6 opposed to it?

7 COUNCIL PRESIDENT VERNA:

8 Excuse me, Councilman.

9 COUNCILMAN RAMOS: I'm sorry.

10 MR. MANDEL: 89 is which one?

11 COUNCILMAN RAMOS: You came
12 here to testify on this discussion today.
13 It's calling to adopt the accelerated
14 gross receipt rate reduction.

15 MR. MANDEL: We would urge you
16 to amend it to reflect the spirit and
17 letter of what the Tax Reform Commission
18 had wanted. Reduce the gross receipts,
19 reduce the net income rate, provide a
20 legislated schedule that ultimately
21 eliminates the tax.

22 COUNCILMAN RAMOS: So you're
23 saying no, unless it's amended?

24 MR. MANDEL: We would urge you
25 to amend it.

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 COUNCILMAN RAMOS: All right.

3 I'm going to pass these questions on to
4 Councilwoman Blackwell.

5 How about 060090?

6 MR. MANDEL: Same answer.

7 COUNCILMAN RAMOS: Same answer.

8 No, but unless it's amended.

9 MR. MANDEL: All of these tax
10 bills are certainly moving in the right
11 direction. We need to reduce this tax.
12 We need to fundamentally eliminate the
13 tax. But the Tax Reform Commission that
14 80 percent of the citizens voted to
15 create, that charged the taxpayers a half
16 million dollars of public money, that
17 took us almost a year of time to create,
18 fundamentally said this is what we should
19 do, cut both sides of the tax, ultimately
20 phase it out.

21 COUNCILMAN RAMOS: How about
22 060014? Again, you're doing this. I
23 appreciate you cooperating, to the extent
24 that you're cooperating with me, on
25 answering where you stand on these bills

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 that we're taking up today.

3 MR. MANDEL: We support that
4 bill. We just wish it would apply to all
5 taxpayers in Philadelphia.

6 COUNCILMAN RAMOS: Okay. Thank
7 you

8 Thank you, Madam President.

9 COUNCIL PRESIDENT VERNA:
10 You're welcome.

11 Are there any other questions
12 from members of the Committee?

13 (No response.)

14 COUNCIL PRESIDENT VERNA: Do we
15 have anyone else to testify on this bill
16 or on the bills?

17 MR. MANDEL: No.

18 COUNCIL PRESIDENT VERNA: Fine.
19 Thank you very much.

20 MR. MANDEL: Thank you.

21 COUNCIL PRESIDENT VERNA:
22 Mr. McPherson, who is our next witness?

23 MR. MCPHERSON: The Chamber of
24 Commerce.

25 COUNCIL PRESIDENT VERNA: Good

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 afternoon.

3 GOVERNOR SCHWEIKER: Good

4 afternoon.

5 COUNCIL PRESIDENT VERNA:

6 Mr. Schweiker, do you have copies of your
7 testimony?

8 GOVERNOR SCHWEIKER: Yes. I
9 think they've been provided beforehand.

10 Thank you, President Verna.

11 COUNCIL PRESIDENT VERNA: Do we
12 have it?

13 GOVERNOR SCHWEIKER: I think
14 they've been circulated.

15 COUNCIL PRESIDENT VERNA:

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

18 GOVERNOR SCHWEIKER: For the
19 record, I'm Mark Schweiker, President and
20 CEO of the Philadelphia Chamber of
21 Commerce, and I certainly appreciate the
22 opportunity to come before you today and
23 the same goes for the Committee of the
24 Whole.

25 Having said that, it's nice to

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 be with you, as I have on at least four
3 prior occasions in the last three years,
4 to urge your collective support for
5 reduction of the business privilege tax.
6 As you likely know by now, our members
7 have long felt that the BPT stands out as
8 one of the biggest points of contention
9 they face in doing business in
10 Philadelphia. It is a tax that burdens
11 small businesses. In fact, both of these
12 gentlemen to my right and left -- and I
13 might add as a parenthetical thought that I
14 had other small business operators today,
15 but they've got some obligations and the
16 typical challenges that come with
17 operating a small business and they could
18 not remain.

19 It is a tax that burdens small
20 businesses in particular. It hurts
21 neighborhood economic development and
22 carries a devastating impact over the
23 long term. If local businesses were able
24 to hire more folks in their
25 neighborhoods, creating paychecks, hope

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 and opportunity, there likely would be
3 less crime on the streets of
4 Philadelphia, as an example.

5 Although, I greatly appreciate
6 the opportunity again today, I must say
7 that not much has changed since my last
8 appearance just a few months ago on
9 November 17, 2005.

10 The Chamber remains staunchly
11 committed to getting a multi-year bill
12 passed that cuts both sides of the BPT,
13 the gross receipts portion and the net
14 income portion. We are somewhat
15 optimistic that the Administration has
16 introduced a bill that addresses three
17 years of reductions in the gross receipts
18 portion of the tax, bringing it down from
19 1.9 to 1.415 in the year 2008 and then
20 thereafter.

21 However, we remain concerned
22 that the Administration's proposal does
23 not currently address the issue of making
24 the City's tax structure more
25 competitive. We believe that any

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 proposal which does not address both
3 gross receipts and net income does not
4 meet the competitive standard. Our
5 membership feels that anything less is
6 not real tax reform.

7 Let me just take a moment to
8 introduce to you the business people
9 joining me today at the witness table. I
10 do want to mention, and I know your
11 testimony references, a Cassandra Hayes
12 and Tim Durney. Both of those folks, and
13 Connie, had to move on to other things.
14 They operate small businesses, and an
15 hour and a half out of their day affects
16 their top and bottom line performance.
17 But on my left is Jorge Lovera, who has
18 got a small architectural services firm
19 here in the City, and Michael Powell --
20 or Michael Pearson. Pardon me. Michael
21 Pearson of Union Packaging.

22 If they look vaguely familiar
23 to you, they should. The Chamber
24 recently spent a considerable sum on
25 television and radio commercials that

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 aired in December just prior to the final
3 vote, the recent vote, on the BPT on
4 December 22nd.

5 These fine folks, real business
6 people here in the City who are motivated
7 to hire City residents, although Mike's
8 firm is Union Packaging just outside the
9 City line, took time away from their busy
10 days in businesses to appear in these
11 commercials and are anxious for your help
12 in reducing their tax burden. They run
13 real neighborhood businesses, whose plans
14 for growth and expansion are dampened by
15 a tax structure that renders them unable
16 to provide more jobs to the residents of
17 the City. And I assure you as real
18 business people -- and you can ask them
19 yourselves -- their collective individual
20 preference is to hire and bring more City
21 residents onto their respective payrolls.

22 Also joining me today and
23 earlier had comments are Drew VandenBrul
24 and Stu Weintraub, and I would point out
25 they serve as co-chairs of the Chamber's

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 Tax Committee. You may also remember
3 them, they were members of the Tax Reform
4 Commission. I would personally like to
5 thank them for the tremendous amount of
6 time and attention that each has paid to
7 the single issue of business privilege
8 tax reduction.

9 And, finally, I would like to
10 recognize Mike Pearson on my right of the
11 Chamber's Small Business Board. As I've
12 already mentioned, Mike is the owner of
13 Union Packaging located in Yeadon just
14 outside the City limits, and the primary
15 reason he is not located in the City is
16 due to the business tax structure in
17 Philadelphia, although he would like to
18 be here. I do want to thank them for
19 their regular and consistent support of
20 our efforts, both in presentations before
21 the City Council and in other venues.

22 Now back to the point of why
23 we're here. Let me also say that in
24 light of the City's \$168 million surplus,
25 I am hopeful that we can do a little

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 better than 5 million in tax reform in
3 2007.

4 I did listen very closely to
5 the Mayor's \$3.6 billion budget
6 presentation to City Council on January
7 24th when the Mayor offered several new
8 initiatives in his Five-Year Plan. Plans
9 to develop riverfronts, reduce youth
10 violence, expand police overtime and
11 infrastructure improvements are all very
12 important to the economic well-being of
13 this great City. But I would suggest
14 that until we reduce the most onerous tax
15 borne by the business community, we will
16 not be able to retain and attract new
17 business to the City, and that would be
18 unfortunate given our current real estate
19 boom, pending Convention Center
20 expansion, new sports stadiums, Kimmel
21 Center and the highly anticipated impact
22 of gaming within the City.

23 As you certainly know, more and
24 more workers in the region are commuting
25 to their jobs outside of the City where

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 companies find a more palatable tax
3 structure. This region would be even
4 more dynamic with a more economically
5 competitive Philadelphia. We strongly
6 believe that the City, too, can
7 experience job growth and revitalize
8 neighborhood business corridors to
9 complement its remarkable housing boom if
10 it makes business tax reform a top
11 priority.

12 As much as some would like for
13 this issue to fade away, the need for
14 business tax reductions continues to
15 dominate the thinking of business owners
16 in every neighborhood of the City. If
17 anyone thinks that tax cuts no longer
18 matter as much to the business community,
19 then, respectfully, I would ask them to
20 think again. I'll tell you why. Most
21 important in consideration, with the City
22 hemorrhaging jobs, 250,000 lost since
23 1970, we desperately need a commitment to
24 reducing business taxes over the long
25 term, and that is why in a letter I had

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 hand-delivered to each and every one of
3 you last week, I made it crystal clear
4 that business tax reform in Philadelphia
5 remains the top priority of the business
6 community and of the Greater Philadelphia
7 Chamber of Commerce.

8 In closing, let me again
9 mention the presence of the small
10 business operators here, and perhaps they
11 would offer a brief reaction or two, and
12 we're available to answer questions, but
13 I do want to, as a forerunning remark,
14 make it clear that they are interested in
15 doing business in the City and would be
16 hiring Philadelphia residents should the
17 tax structure improve.

18 So, Jorge, if you'd like.

19 MR. LOVERA: I thank you for
20 having us here, Madam President and
21 Councilmembers. I have to correct --

22 COUNCIL PRESIDENT VERNA:

23 Excuse me, sir.

24 MR. LOVERA: I am Jorge Lovera
25 from Agoos/Lovera Architects, and I'm a

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 founding principal of the firm. And I do
3 have to correct Mark. We are actually a
4 medium-sized architectural firm in
5 Philadelphia. We presently have 35
6 people on staff, with actually about 20
7 percent of them really of other color and
8 gender. I mean, so that goes to
9 Councilman Goode. In fact, we've been on
10 a growing spurt, except that --

11 COUNCILMAN GOODE: Point of
12 information.

13 COUNCIL PRESIDENT VERNA: The
14 Chair recognizes Councilman Goode for a
15 point of information.

16 COUNCILMAN GOODE: I have not
17 addressed the issue of minority hiring.
18 I've addressed the issue of who is able
19 to start businesses and is able to hire
20 based upon the issue of access to capital
21 and credit.

22 MR. LOVERA: Very well.

23 COUNCILMAN GOODE: Thank you,
24 Madam President.

25 COUNCIL PRESIDENT VERNA:

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 You're welcome.

3 MR. LOVERA: And my wife and I
4 live in Philadelphia. We have lived in
5 Philadelphia for about 15 years. But the
6 business privilege tax is, as Mark said,
7 a very onerous tax. It is one that
8 really hinders us from actually being
9 able to bring additional people on board,
10 because of the fact that it's just such a
11 painful experience. And whatever profit
12 you are able to make, it's something that
13 really hits me directly at the end of the
14 year and in such a way that it's just a
15 difficult thing to do.

16 As a matter of fact, our
17 accountant and attorney, who the attorney
18 is actually in the City but the
19 accountant is outside of the City, have
20 for years really requested every occasion
21 of the firm. We stand firm only because
22 of the fact that about 50 percent of our
23 staff is actually in the City, and it
24 would be a very difficult thing for them
25 to move. We have such a great staff,

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 that that is really what our reputation
3 is about. So it would be difficult for
4 them to make that move.

5 But I would definitely urge all
6 of you to recognize -- and I'm not saying
7 that you don't, but I will go this far to
8 say recognize the times we live in, and
9 it is an extremely competent society that
10 we live in. I'm not talking about just
11 nationally, but also internationally.
12 And this is a city that has a great
13 opportunity. I mean, just what we are
14 seeing or we have seen over the last
15 couple of years regarding entertainment,
16 regarding residential projects, just
17 about any part of what makes this great
18 city great has generally gone in the
19 right direction, and this is just one
20 more aspect of what it takes for us as
21 united people to really get us up to the
22 top, and I think that is critical for us
23 to do so.

24 COUNCIL PRESIDENT VERNA: Thank
25 you for taking the time to come in to

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 testify. We really appreciate it.

3 MR. LOVERA: Thank you.

4 COUNCIL PRESIDENT VERNA:

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

7 MR. PEARSON: Michael Pearson
8 of Union Packaging and also a Board
9 member of the Chamber's Small Business
10 Board.

11 Some time ago I had the
12 inclination to start a business in
13 Philadelphia, roughly 1999. My company
14 now, Union Packaging, employs 80
15 individuals, 30 of which are residents of
16 Philadelphia, which includes myself. I
17 would have liked to have started that
18 business in Philadelphia, but the tax
19 made it prohibitive while I was in
20 start-up mode. And now that my customer
21 base -- some of those customers include
22 the three largest fast food companies in
23 the United States -- have graced me with
24 more business, we're in expansion mode.
25 So I could be as high as 150 employees

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 going forward, and I'm looking for a
3 building, probably 150,000 square feet.
4 Well, I'm here today because when I come
5 to that point of evaluating additional
6 space, I want Philadelphia to be a viable
7 option. I love downtown. I love the
8 City. But I am a business person, and
9 that tax is somewhat prohibitive right
10 now. And I would like to have those
11 opportunities created so that we can look
12 at a facility in Philadelphia in the
13 future. And with that, I conclude my
14 comments.

15 GOVERNOR SCHWEIKER: I just
16 wanted to point out, Council President
17 Verna, we do appreciate the opportunity
18 to provide remarks. I know these folks
19 are busy, and I think it's important that
20 they have the opportunity to be in the
21 City's Council room to give firsthand
22 their take on things. And the only thing
23 I also wanted to mention is, at times I
24 think there is some political
25 handicapping that the Chamber presents

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 positions that are espoused only by the
3 folks in the tall buildings here in the
4 center of town. That's just not so.
5 These are small business people that, in
6 Jorge's case, have 50, 60 employees or an
7 aspiration to be -- it's 50 and 60
8 employees, with 35 now. And whether it
9 was our effort in December or to our
10 presence here today, I just wanted to
11 debunk that myth and give you one
12 specific as far as the Chamber's makeup.
13 Fourty-five percent of our businesses
14 have employee counts of six and below.
15 So make no mistake, the Greater
16 Philadelphia Chamber of Commerce, while
17 we have members from Princeton to
18 Wilmington, 6,000 in total, 3,000 of whom
19 have a City address, and most of them
20 small businesses I've just tried to
21 describe, and it is those folks who
22 really don't have the time to come in
23 hour after hour after hour to City
24 Council Chambers and pursue this issue
25 and ask for a business privilege tax

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 reduction. That's our job.

3 But that's a picture I wanted
4 to paint and deal with that back-channel
5 assessment, that somehow the voice of
6 small business is not associated and part
7 of the Greater Philadelphia Chamber of
8 Commerce. It's the farthest thing from
9 the truth, and these kind folks I think
10 drive home that picture today, and I
11 wanted to thank them for their interest
12 in being here.

13 COUNCIL PRESIDENT VERNA: Thank
14 you.

15 I see that there are a couple
16 Councilmembers that would like to be
17 recognized, and the Chair recognizes
18 Councilman Goode.

19 COUNCILMAN GOODE: Thank you,
20 Madam President.

21 Good afternoon, Governor,
22 members of his panel. As you may have
23 heard earlier, the issue of tax reform
24 has been presented as being an issue of
25 job creation, and my earlier questions

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 deal with the who, what and where of job
3 creation. And acknowledging your
4 testimony, it reads on Page 1, "If local
5 businesses were able to hire more folks
6 in their neighborhoods, creating
7 paychecks, hope and opportunity, there
8 likely would be less crime on the streets
9 of Philadelphia."

10 So the first question I ask
11 will deal with the what of job creation
12 and what type of job quality are you
13 referring to in that statement and
14 throughout your testimony. What is the
15 Chamber's official position on the state
16 minimum wage?

17 GOVERNOR SCHWEIKER: The
18 Chamber at this moment does not have one.
19 Their feeling is, they'd like to know
20 more about the impact, and they expect
21 those involved in state government who
22 are advancing that perspective to provide
23 that information. But I think to some
24 extent, there's a healthy subset,
25 Councilman Goode, that are comfortable

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 with its elevation. It's to what level
3 that they need to zero in on. But having
4 said all that, formally speaking, the
5 Chamber is without one formally
6 established outlook.

7 MR. PEARSON: I can't speak for
8 the Chamber, but I can speak as an
9 individual business owner. Part of my
10 goal was to create positions that have
11 sustainable wages so that people can
12 educate their children, so they can
13 become homeowners. I'm proud to say our
14 starting or entry-level positions exceed
15 \$10 an hour. I provide 80 percent of
16 medical benefits, and I offer tuition
17 reimbursement.

18 MR. LOVERA: Likewise, for my
19 firm, the lowest income employee or
20 salaried employee is about \$35,000 a
21 year. And of that also, as I was saying
22 previously, about 25 percent are
23 African-Americans and about probably 30,
24 35 percent of the overall population is
25 women.

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 GOVERNOR SCHWEIKER: Councilman
3 Goode, if I can, as far as the jobs
4 that -- as you know, you've been at this
5 long enough, it's difficult to lay out
6 cause and effect and say if you do this,
7 you'll get this, but my individual
8 opinion is -- and I think a lot of the
9 smart people that operate the businesses
10 in this City are determined to hire -- I
11 think the growth would be across all
12 industry sectors that define the City
13 today. Just a matter of time. We've got
14 to lower the business privilege tax.

15 COUNCILMAN GOODE: My specific
16 question in terms of "what" is, what type
17 of job quality. My specific question is,
18 what should the minimum wage be?

19 GOVERNOR SCHWEIKER: I don't
20 have that for you.

21 COUNCILMAN GOODE: Second
22 question is, let me sort of amend the
23 statement you made in your testimony and
24 rather than say if local businesses were
25 able to hire more folks in their

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 neighborhoods, let me change that and say
3 if minority businesses have better access
4 to capital and credit and were able to
5 hire more folks in their neighborhoods,
6 creating paychecks, hope and opportunity,
7 there would be less crime on the streets
8 of Philadelphia, what does the Chamber
9 intend to do about who creates businesses
10 in Philadelphia and the fact that there
11 is not equitable access to capital and
12 credit? In fact, as we've stated in the
13 past, and I've asked you this question in
14 the past, where that is in fact a greater
15 issue for businesses owned by minorities
16 and women than tax reform.

17 GOVERNOR SCHWEIKER: Yeah.
18 Well, I can tell you on an everyday basis
19 we operate what's called the Supplier
20 Network. This is for small businesses
21 who 90 percent of their folks are coming
22 from the neighborhoods, their employees.

23 COUNCILMAN GOODE: Are you
24 addressing lending discrimination right
25 now? My question is about lending

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 discrimination.

3 GOVERNOR SCHWEIKER: No, I'm
4 not. I thought you were asking me about
5 what type of jobs.

6 COUNCILMAN GOODE: My question
7 is about lending discrimination and
8 whether -- the lending discrimination has
9 been documented in the City with regard
10 to small business lending -- creates
11 female borrowers, and the City is
12 comprised of mostly women, and minority
13 borrowers, and the City is mostly
14 comprised of people of color, whether we
15 are in fact creating an economic
16 disadvantage for the City and possibly a
17 greater economic disadvantage to the City
18 than even our tax structure by allowing
19 lending discrimination to the extent that
20 it exists and, in fact, whether there
21 couldn't be more businesses hiring people
22 and affecting the issues that you claim
23 you want to affect. In other words, I
24 amended your statement to say that if
25 minority businesses have better access to

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 capital --

3 GOVERNOR SCHWEIKER: I'm

4 comfortable with that.

5 COUNCILMAN GOODE: So what is

6 the Chamber doing about it?

7 GOVERNOR SCHWEIKER: I came

8 here today expecting to be fielding

9 questions germane to reduction of the

10 business privilege tax and the City's tax

11 model. So we can provide you with a

12 formal response, but I believe you would

13 find -- I don't know what the source of

14 your research is, but --

15 COUNCILMAN GOODE: I can tell

16 you the source of my research.

17 GOVERNOR SCHWEIKER: -- we

18 can -- if you could just allow me to

19 finish, Councilman. I know you raised

20 the question. I'm trying to be

21 respectful of your place here.

22 I believe had we had the

23 opportunity and had been informed ahead

24 of time that you were interested in that

25 kind of information, we could prepare the

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 answer, and we will do that.

3 COUNCILMAN GOODE: I've asked
4 that question in previous tax reform
5 hearings. Not just in other hearings,
6 but previous tax reform hearings.

7 GOVERNOR SCHWEIKER: That may
8 be so.

9 COUNCILMAN GOODE: And your
10 response then was that access to capital
11 and credit is probably the primary issue
12 for minority and women businesses. So I
13 would expect that you would expect me to
14 ask the question again, and I would
15 expect that with all that's been said in
16 terms of legislation in public policy
17 recently and the fact that there is data
18 out there that shows that less than a
19 third of small businesses that make less
20 than a million dollars a year receive
21 loans in minority census tracts -- in
22 other words, if you were located in a
23 minority census tract, you only had
24 access to less than a third of small
25 business loans of the business that make

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 less than a million dollars a year, and
3 that places the City at an economic
4 disadvantage.

5 But I'll move on to the third
6 question, which is the where. Other than
7 tax reform, what specific initiatives
8 does the Chamber have with regard to
9 neighborhood commercial corridors, which
10 you referenced in your testimony?

11 GOVERNOR SCHWEIKER: Well, I
12 would cite -- thank you for your
13 vigilance on this and how you describe
14 it, at least in those three categories,
15 but I would mention, and certainly Mike
16 has some conversance with this as an
17 active member of our Small Business
18 Board, the Chamber on an everyday basis
19 operates what's called the Supplier
20 Network, and that is for those bigger
21 firms out there that are looking to
22 expand their pool of qualified vendors
23 and suppliers, and all small businesses
24 who would like to be big businesses some
25 day -- and, yes, many of them are

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 minority lending. We track all that --
3 have the opportunity to understand
4 exactly what these big firms want in
5 terms of procurement, and it's a formal
6 commitment required where they experience
7 a lot of insightful education, certify
8 that they can be a vendor or supplier for
9 big businesses. They're all through the
10 City of Philadelphia, or they have the
11 opportunity to participate if they'd
12 like. And through that channel, they
13 come to know what's required for them to
14 do business. That's the Supplier
15 Network, and we continue to operate that.

16 COUNCILMAN GOODE: My question
17 was more related to not minority business
18 development. That question was related
19 to neighborhood business development and
20 specifically neighborhood business
21 districts, and as we are here talking
22 about how to create a better environment
23 for doing business in Philadelphia in
24 general, we know some of the most
25 challenging areas to do business happen

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 to be on the many neighborhood business
3 strips and commercial corridors
4 throughout the City.

5 I'm asking whether the Chamber
6 has any specific programs to make those
7 business strips within low- and
8 moderate-income and minority
9 neighborhoods more attractive? Is that
10 part of the Chamber's formal agenda?

11 GOVERNOR SCHWEIKER: Yeah, I
12 believe that it is, and I would again
13 cite the Supplier Network as an example
14 of our promotional effort that brings
15 more -- our attempts at landing more
16 business to bring them to the City so
17 they in turn do business with the firms
18 inside those corridors.

19 COUNCILMAN GOODE: Can you name
20 any members of the Supplier Network that
21 happen to have their businesses located
22 within a neighborhood business district?

23 GOVERNOR SCHWEIKER: I can get
24 that for you.

25 COUNCILMAN GOODE: Thank you,

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 Madam President.

3 COUNCIL PRESIDENT VERNA:

4 You're welcome.

5 The Chair recognizes Councilman
6 Kelly.

7 COUNCILMAN KELLY: Thank you,
8 Madam Chair.

9 Thank you, Governor, Mr. Lovera
10 and Mr. Pearson, for coming in here
11 today. I just have a question for
12 Mr. Pearson.

13 You mention in your testimony
14 that you're interested or you were
15 interested in acquiring a 150,000 square
16 foot facility. Could you tell me if you
17 did purchase that facility, would you
18 anticipate hiring additional employees?

19 MR. PEARSON: Clearly, the goal
20 is focused on growth and making that
21 commitment to expand from where we're
22 currently at about 80,000 square feet.
23 Clearly, I anticipate growing the
24 business.

25 COUNCILMAN KELLY: Could you

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 give us an idea on where that facility
3 would be located? Have you had --

4 MR. PEARSON: I'm presently
5 located in Yeadon, Pennsylvania.
6 Obviously I am leasing a facility. The
7 next move would be to purchase a
8 facility. Initially when I started the
9 company, I didn't have the capital to
10 commit, because it's a capital-intensive
11 business and I had a lot of equipment to
12 buy. Now I'm at the point where that
13 becomes a more realistic investment, and,
14 again, I'm looking for access to
15 transportation, not only mass transit so
16 that my workers can get to work, but also
17 trucking. I'm looking for ceilings. I'm
18 looking for a solid building that does
19 not have any hidden environmental
20 challenges. And I think Philadelphia can
21 offer me that opportunity, but, again, at
22 the end of the day, it's got to make
23 sense on a balance sheet.

24 COUNCILMAN KELLY: Well, the
25 question I have is, if you did hire

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 additional people, would they be from
3 probably the same area that you would
4 have the facility in or would they be
5 from everywhere?

6 MR. PEARSON: Generally that
7 follows suit. A lot of businesses will
8 give you anecdotal studies. If they draw
9 a map of their business and they stick
10 pins for every employee, generally those
11 employees are drawn from those
12 communities.

13 COUNCILMAN KELLY: Okay.
14 That's all I wanted to say. I find it
15 very interesting, though, and I do have
16 some other questions for you, but I'd
17 rather address them with you personally,
18 if I may.

19 GOVERNOR SCHWEIKER: Councilman
20 Kelly, I tell you, how close is his
21 company to this City? As close as that
22 exit door of the Council Chambers to this
23 table. And they're in that location.
24 And that's the difference as far as a
25 place who does extract 6.5 percent on net

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 profits and one who does not.

3 COUNCILMAN KELLY: Well, that's
4 true. For the testimony that we've been
5 listening to today, I think that many
6 small businesses have said the same
7 thing, and I think that the only thing
8 that I can say is, it comes down to
9 either you believe in supply side
10 economics or you don't. If you believe
11 that these tax reductions are going to
12 really spur development, economic
13 development, it's going to bring in new
14 businesses, it's going to have new
15 employees, then I think you're going to
16 vote for tax reduction, but if you don't,
17 if you don't think it's going to do
18 anything, then I think you won't. I
19 think if you stay status quo, if you
20 think that's good, that's where we are in
21 this Council. I think that we have to do
22 whatever we have to do. I would rather
23 take the risk, if there is a risk, in
24 getting in some tax reductions so that we
25 could really send a message out to the

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 business community that we are serious
3 about gaining new businesses in this
4 City. That's all I'd have to say, and I
5 again thank you for --

6 GOVERNOR SCHWEIKER:
7 Councilman, thank you. We're trying to
8 accent the positive, and during my
9 remarks, I did mention that we're pleased
10 with Mayor Street, and we said so a
11 couple weeks back, that that particular
12 day we were happy to see the Mayor
13 embrace the need for business privilege
14 tax reductions. And I think with some of
15 the legislative eagles that exist that
16 have been circulated by members of this
17 very Council, the opportunity to blend
18 interest and outcome, possible outcomes,
19 creates a positive opportunity, and by
20 June, perhaps we have in place the
21 reductions of which you speak.

22 So one of the things, too, I
23 wanted to point out to Councilman Goode,
24 Cassandra Hayes was here today -- and
25 this is relevant to your question

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 about -- and I know where you're going;
3 that is, real jobs held by real people in
4 the neighborhoods near these corridors
5 and what the Chamber has done. Perhaps
6 Cassandra Hayes would have been the most
7 appropriate respondent. And she was
8 here, but she runs a small business and
9 to take two hours out of the workday
10 hurts the top and bottom line. That's
11 just the way it is. They can't hang out
12 in City Council all day.

13 But having said that, she runs
14 Bodacious. It's a promotional gifts and
15 basket production, small firm. I think
16 it kind of epitomizes the kind of firm or
17 company that's on your mind, small. And
18 she would tell you about the Chamber's
19 mechanical help and commitments so that
20 she could thrive in business, but she had
21 to take off.

22 COUNCILMAN GOODE: Well,
23 essentially for your own edification,
24 according to our most recent study, there
25 were 28,019 small businesses located in

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 minority census tracts. They only
3 received 2,276 loans, small business
4 loans. There were 33,792 small
5 businesses that made less than a million
6 dollars in nine minority census tracts.
7 They received 4,636 loans. In terms of
8 those businesses that make less than a
9 million dollars, in minority census
10 tracts, they received 32.93 percent, less
11 than a third, of lending resources. So
12 the anecdotal testimony would have meant
13 nothing to me at all.

14 Thank you.

15 GOVERNOR SCHWEIKER: Hopefully
16 we can work with you on improving that
17 picture.

18 COUNCIL PRESIDENT VERNA: Thank
19 you.

20 Are there any other questions
21 from members of the Committee?

22 (No response.)

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

25 GOVERNOR SCHWEIKER: Thank you.

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 COUNCIL PRESIDENT VERNA: Stan
3 Shapiro, One Philadelphia.

4 MR. SHAPIRO: Good afternoon,
5 Madam President.

6 COUNCIL PRESIDENT VERNA: Good
7 afternoon. Nice seeing you, Stan.
8 Please identify yourself for the record.

9 MR. SHAPIRO: I'm Stanley
10 Shapiro, coordinator of One Philadelphia,
11 and I'm here with a panel of three of my
12 colleagues from One Philadelphia to
13 testify on the principles in these bills.
14 I'd like to say that we have not yet had
15 an opportunity to examine the details of
16 the bills, so we can't comment on those
17 precise items of legislation, but we do
18 want to talk about the principles in the
19 legislation.

20 COUNCIL PRESIDENT VERNA:
21 That's fine.

22 MR. SHAPIRO: And we're going
23 to start off with a former member of the
24 Tax Reform Commission, Jonathan Stein.

25 COUNCIL PRESIDENT VERNA: Good

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 afternoon, Mr. Stein. Nice seeing you.

3 MR. STEIN: Nice to see you,
4 too. I'm Jonathan Stein. I'm general
5 counsel at Community Legal Services.

6 The testimony I have is in a
7 written form and in fact in letters that
8 I sent to each of the Councilmembers last
9 week, and I have copies here for
10 distribution.

11 If you recall, the last time I
12 was here in City Council, I was honored
13 to participate in the memorial service
14 for the late Councilman David Cohen, and
15 I really thank both Council President
16 Verna and other members of Council here
17 who helped make that memorial service
18 possible.

19 I'm here today to solely speak
20 against the repeal of the ordinance that
21 was called the David Cohen ordinance, but
22 is really the ordinance of this entire
23 City Council. If you recall that
24 memorial service, many people, both who
25 spoke and those on City Council, took

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 great pride in the accomplishment of
3 establishing, for the first time in the
4 City's history, a tax credit for not only
5 the working poor. That's how it's been
6 described, but it's really any working
7 family earning less than \$32,000 would be
8 eligible for some graduated credit. So
9 that we're not only talking about working
10 poor, but we're talking about what you
11 might call working-class or
12 low-middle-income families, tens of
13 thousands of families across the City of
14 Philadelphia. And that was not only the
15 accomplishment of David Cohen, the late
16 Councilman David Cohen, but I would say
17 the accomplishment of this entire City
18 Council. This is an achievement of City
19 Council, and I think one of the greatest
20 achievements of the last decades, to
21 establish this working tax credit.

22 And we're somewhat chagrined
23 that this is even before you for repeal.
24 This is probably the most significant
25 piece of progressive tax policy that this

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 City and City Council has ever adopted in
3 the last seven decades. And I'd like to
4 just mention very briefly just in a few
5 minutes the reasons why this repeal issue
6 should really be taken off the table.

7 The first and foremost is that
8 there's no fiscal reason to repeal this
9 ordinance. It's not going to affect next
10 year's budget. We know its first year of
11 impact is Fiscal Year 2010. It won't in
12 fact impact Mayor Street's last year in
13 office two years from now. And the only
14 impact it would have is for Fiscal Year
15 '10 or 2010 and 2011. And even there,
16 even if you implemented the ordinance in
17 those outer years to the Five-Year Plan,
18 you'd still have a budget surplus,
19 according to Mayor Street's figures that
20 he supplied Council with in the Five-Year
21 Plan fund balance just a few weeks ago.

22 So there's absolutely no reason
23 budget-wise or fiscal-wise why this
24 ordinance should even be discussed for
25 repeal, much less repealed.

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 Secondly, related to that is
3 that because the tax credit would work by
4 requiring people to apply for it, we know
5 that it won't have 100 percent take-up
6 rate, and those in the Administration
7 that estimated the cost of the tax credit
8 did not take into account that there will
9 not be 100 percent take-up rate. In
10 fact, the current federal Earned Income
11 Tax Credit, or EITC, is one where the
12 take-up rate is currently about 75
13 percent. So that the cost estimates of
14 the City Administration are really way
15 off in terms of what these costs will be
16 down the road.

17 On the merits of this
18 ordinance -- and it's sort of strange to
19 be able to have to defend a law that's
20 already law that this Council overrode
21 the Mayor's veto on just not too long
22 ago, but the most important aspect of
23 this tax credit is that it injects one
24 element of progressivity and fairness in
25 this City tax structure. We noticed our

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 tax structure is not a fair one across
3 the board, but this says we're going to
4 make a small dent for working families
5 who have incomes under 32,000 a year to
6 parallel what we have at the state level
7 and at the federal level.

8 We also had economists who
9 testified before City Council from the
10 Keystone Research Center that made two
11 main points I can summarize in two
12 seconds. One is that unlike these
13 across-the-board wage tax cuts, which
14 help suburbanites who work in the City,
15 this tax cut because it is focused on
16 more working-class families is almost all
17 going to Philadelphia residents and not
18 non-residents. It also is one because of
19 who would benefit that would go to people
20 spending the money and not putting it off
21 into investments or vacations in Europe
22 or whatever. They would actually spend
23 the money on City businesses and maybe
24 even on some bills like those owing to
25 the Water Department or the Gas Works.

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 So this makes a lot of sense impacting
3 Philadelphia residents and on consumer
4 demand in Philadelphia.

5 And the last point I'll make
6 before turning it back to Mr. Shapiro and
7 Sharon Ward is really the legacy of this
8 Council and the City of Philadelphia.
9 This should be the pride of this City, an
10 extraordinary accomplishment, made in a
11 difficult way. Obviously, there are
12 competing interests and budget problems,
13 but this is a shining star of tax
14 fairness and equity in this City.

15 Councilman Ramos wrote in the
16 Daily News it's the right thing to do,
17 it's moral politics, and he added, We are
18 strong and smart enough to do right by
19 the poor and solve our deficit, too. And
20 when he said "poor," he really also, I
21 think, meant working-class and
22 low-middle-income people as well.

23 So we urge City Council to put
24 this repeal aside and to take pride in
25 this major accomplishment that you all

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 voted on within this past year.

3 Thank you.

4 COUNCIL PRESIDENT VERNA: Thank
5 you, Mr. Stein.

6 MR. SHAPIRO: Sharon Ward will
7 be next.

8 COUNCIL PRESIDENT VERNA:
9 Sharon.

10 MS. WARD: Good afternoon.
11 Thank you for the opportunity to testify
12 once again on taxes in Philadelphia. I'm
13 Sharon Ward. I'm with Philadelphia
14 Citizens for Children and Youth.

15 When I came here today in
16 writing the testimony, my sentiments did
17 echo those of Councilman Kenney. Here we
18 are again. Here we're having the same
19 conversation and where will that bring
20 us. And I think that my position today
21 is that we've had a great deal of
22 discussion and testimony about business
23 taxes in Philadelphia, and I think it's
24 been very helpful over the past three
25 years, and I think today's hearing was

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 very helpful. Because the fact of the
3 matter is that we are a City that still
4 has tremendous needs and a great demand
5 for services and we've had a good
6 discussion around business taxes. And I
7 think from hearing three years of
8 testimony, what has become clear is that
9 citizens in Philadelphia and City Council
10 members have a variety of goals, and what
11 I would submit to you today is that it
12 would be a more productive use of
13 Council's time at this point to begin to
14 consider tax proposals that reflect all
15 of those goals rather than just one.

16 It is relatively clear, given
17 the comments of Councilmembers and the
18 issues of consideration today, that
19 members of Council and Philadelphia
20 residents value a number of things. We
21 value the continuation of necessary
22 services, whether they're police or fire
23 departments or libraries or a variety of
24 other things that have struggled over the
25 past few years. We value affordable and

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 stable property taxes. We value a tax
3 system that does not hit the
4 lowest-income workers disproportionately.
5 And we value job growth.

6 I would simply submit to you
7 that the conversations that we have had
8 over the past three years about
9 eliminating business taxes address one of
10 those issues at the peril of the other
11 three, and suggest that it is time for
12 Council to consider some alternatives
13 that would allow us to embrace all of
14 those values rather than simply one.

15 We're fortunate this year that
16 we are in better economic times than we
17 have had over the previous couple of
18 years, but I do want to point out that
19 we've really only begun to recover from
20 the retrenchment and staffing and
21 services that this City has experienced
22 over the past four years.

23 If this budget is enacted as
24 proposed, Philadelphia will still have
25 1,200 fewer employees than it did in

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 2001. We will have experienced
3 reductions in staffing in every
4 department in the City, with the
5 exception of two, the prisons and the
6 Department of Human Services. And while
7 prison spending and positions have gone
8 up considerably, even the Department of
9 Human Services, which addresses our most
10 vulnerable citizens, has only had a
11 modest increase in positions.

12 There are several areas where
13 we have continued to fail to recover.
14 This Council has raised the issue of
15 police staffing levels. There are three
16 other departments in particular that have
17 experienced significant reductions in
18 staffing. The Department of Licenses and
19 Inspections, one that I will submit to
20 you has probably an equal impact on the
21 business climate in this City, as do its
22 taxes, has had more than a 20 percent
23 reduction in staffing, as has Fairmount
24 Park, and the Department of Public Health
25 now has about 18 percent fewer staff than

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 it did in 2001, and you can see that when
3 you try and make an appointment to get
4 services at the department.

5 We know the business community
6 doesn't like taxes. They don't want
7 taxes. They've gone to great lengths to
8 express how much they dislike paying
9 taxes, and that's true here and that's
10 true pretty much in any business
11 community at any level, municipal, state
12 or federal. But I think -- and we want
13 to point out again that in fact
14 Philadelphia is a city that doesn't raise
15 business taxes, hasn't raised business
16 taxes, has in fact reduced business taxes
17 on a predictable schedule for the past
18 ten years and in fact has reduced
19 business taxes by more than a third over
20 that period in time.

21 Unfortunately, the position of
22 the business community is that only
23 eliminating business taxes will do. So
24 that's the proposal on the table.

25 I think what your hearings and

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 this dialogue has introduced is simply
3 the notion that Council can do that, you
4 can eliminate business taxes, but we've
5 learned two things. One is that it will
6 cost a lot of money, \$265 million when
7 fully eliminated.

8 COUNCIL PRESIDENT VERNA:

9 Excuse me a moment, please.

10 The Chair recognizes Councilman
11 Nutter for a point of information.

12 COUNCILMAN NUTTER: Thank you,
13 Madam President.

14 Ms. Ward, I sincerely
15 apologize, but by the time I am able to
16 actually come back, we'll be several
17 pages into the record.

18 I know we've been down this
19 road so many times that it may be
20 difficult for all of us to keep track of
21 what's in front of us and what's not in
22 front of us. I don't believe there's a
23 bill in front of us that eliminates the
24 business privilege tax. You've mentioned
25 it a couple times.

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 MS. WARD: That's true, but I
3 believe much of the testimony here today
4 has been about the need to not to mend
5 but to end the business privilege tax, so
6 my testimony is simply following that
7 vein.

8 COUNCILMAN NUTTER: Well, I
9 understand that. I can't account for
10 what people say. I just want to make
11 sure that the record is clear and that
12 your testimony is clear and doesn't
13 potential lead to further confusion on
14 the record. When you say definitively
15 that we're talking about eliminating the
16 business privilege tax, at the moment
17 that is not true. There is no bill that
18 does that in front of us right now.

19 MS. WARD: That's true. And
20 then I can modify my comments to say that
21 there is legislation that would enact a
22 one- or three-year reduction, further
23 reduction, in the gross receipts tax on a
24 schedule to eliminate the gross receipts
25 tax in 2020.

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 COUNCILMAN NUTTER: There is no
3 such proposal in front of us that does
4 that either.

5 MS. WARD: Okay. Thank you.
6 Noted.

7 MR. SHAPIRO: Can I just
8 interject?

9 My understanding, very quickly,
10 is that people will propose amendments
11 which would put such a schedule in place.

12 COUNCILMAN NUTTER: I didn't
13 hear the first part.

14 MR. SHAPIRO: I believe that
15 people have suggested, at least from this
16 table, amendments that would put such a
17 schedule in place. So I think that's why
18 we're addressing it.

19 COUNCILMAN NUTTER: Again,
20 people can suggest whatever they want,
21 respectfully, at that table. There are
22 only people at 16 of these tables that
23 get to do anything about it, and I want
24 to make sure that the record is clear and
25 that people who are testifying are clear

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 that you cannot say at the moment that
3 there is a bill or even an amendment that
4 eliminates the business privilege tax in
5 front of us at the moment. There is no
6 bill in existence --

7 MS. WARD: Thank you for that
8 clarification.

9 COUNCILMAN NUTTER: -- in front
10 of us at the moment that does any of
11 that.

12 MS. WARD: Okay. Good.

13 COUNCILMAN NUTTER: I just want
14 to make sure that we're all speaking
15 about the same thing.

16 There have been. There have
17 been many in the past. People have
18 talked about it. People can talk about
19 whatever they what to talk about. There
20 is no bill that exists at the moment that
21 does that.

22 MS. WARD: Thank you,
23 Councilman.

24 COUNCILMAN NUTTER: Thank you,
25 Madam Chair.

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 COUNCIL PRESIDENT VERNA:

3 You're welcome.

4 MS. WARD: We'll note that.

5 There were some -- again,
6 there's a conversation here about how to
7 protect citizens and grow Philadelphia's
8 economy. So let me suggest that there
9 are three things that we should consider
10 and we would urge you to consider that
11 would enable the City to do so.

12 First was the point that
13 Councilman Goode has raised continually
14 throughout the day, that taxes are not
15 the only things that businesses worry
16 about, that issues related to ability to
17 get permits and access to capital are
18 very important. We believe it would be
19 productive if there were proposals that
20 were considered and enacted that helped
21 to address those issues.

22 The second is, we would urge
23 Council to look at the existing tax
24 reduction and deferment programs better
25 and to report back on how they are

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 working and if that's not a strategy that
3 should be pursued. We have enterprise
4 zones, opportunity zones where businesses
5 can locate and pay few or no taxes, and I
6 would submit to you that many of the
7 individuals who are testifying here today
8 might do well to move their businesses to
9 those areas if they were concerned about
10 business taxes, and that certainly would
11 help them to thrive.

12 The third is that we would urge
13 that Council look at approaches that are
14 more targeted to new and small
15 businesses. The conundrum that's been
16 presented is that the reduction in
17 overall tax rates affects small
18 struggling businesses and large thriving
19 businesses, and in an area of scarce
20 resources, it does not make sense to
21 provide tax relief to large and thriving
22 businesses if your goal is to attract and
23 retain smaller businesses and businesses
24 that grow.

25 Simply, we'd urge Council to

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 change the debate and move the debate to
3 make sure that we are protecting what's
4 valued in the City and that we are not
5 considering proposals that will do harm
6 to the City's ability to continue to
7 deliver services to its citizens.

8 Thank you.

9 COUNCIL PRESIDENT VERNA: Thank
10 you.

11 Mr. Shapiro, are you
12 testifying?

13 MR. SHAPIRO: We'll have Mark
14 Stier next.

15 COUNCIL PRESIDENT VERNA: Thank
16 you.

17 MR. SHAPIRO: And then I'll say
18 a few words.

19 COUNCIL PRESIDENT VERNA: Good
20 afternoon, sir. Please identify yourself
21 for the record.

22 MR. STIER: My name is Mark
23 Stier. I'm speaking on behalf of One
24 Philadelphia. Thank you, Madam
25 President, for allowing us to testify on

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 this important issue.

3 Over the last few years, it
4 seems to me the debate about economic
5 development in this City has been
6 narrowing from a general debate about the
7 kinds of things that improve our economy
8 to a debate about tax reform, and now we
9 seem to be focused almost solely on
10 reducing one tax, the business privilege
11 tax. I'd like to suggest that we take a
12 little broader look at how to grow
13 businesses in Philadelphia, and I want to
14 draw on my own experience as President of
15 West Mount Airy Neighbors and as a member
16 of the Board of our community development
17 corporation, Mount Airy USA. And I think
18 we ought to start with goals, because
19 there are a lot of different kinds of
20 goals we can have from growing the
21 economy.

22 I suggest the most important
23 goal is to grow businesses in our
24 neighborhoods, to revitalize our
25 commercial corridors, to focus on small

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 businesses. I think it's those small
3 businesses that are most likely to employ
4 Philadelphians and, in particular, to
5 employ Philadelphians who are less
6 skilled and who are very much
7 underemployed and unemployed right now.

8 I also think it's those small
9 businesses that are most likely to
10 contribute to the whole neighborhood by,
11 for example, reducing the prices of goods
12 and services, which are often far higher
13 in our distressed neighborhoods than in
14 our more affluent neighborhoods.

15 Now, if that's our goal, what
16 kinds of strategies should we adopt to
17 attain that goal? I would suggest first
18 our strategy should focus on investment
19 in these commercial corridors. First we
20 have to help businesses secure the
21 capital they need to start up, and here I
22 think I agree with Councilman Goode's
23 eloquent testimony and questions about
24 the barriers to African-Americans and to
25 women in starting businesses.

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 I also think we need to focus
3 on improving these commercial corridors,
4 improving their streetscapes, cleaning
5 the streets, providing an environment in
6 which businesses thrive.

7 And, secondly, after these
8 investments in businesses and commercial
9 corridors, I suggest we need to deal with
10 the crime problem. One of the greatest
11 barriers to crime, particularly in our
12 distressed -- sorry. One of the greatest
13 barriers to new businesses starting up in
14 especially our distressed neighborhoods
15 is the high rates of crime, and I think
16 City resources need to be spent to deal
17 with that problem.

18 Third, I think we need to make
19 the process of starting businesses much
20 easier. I have a friend who is a Ph.D.
21 who recently opened up a consulting firm
22 in Center City and he told me that after
23 three to four weeks of running from one
24 agency to another and dealing with the
25 morass that's the Department of L&I, he

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 wonders how anyone ever starts a business
3 in Philadelphia, and he particularly
4 wonders whether everyone needs a Ph.D. or
5 a consultant with that kind of expertise
6 to start a business here. I think that's
7 an important barrier to business
8 development and it's one this Council
9 ought to address.

10 So those are the first three
11 things I would start with. Then I would
12 come to taxes, and I want to suggest a
13 number of things that we need to think
14 about when we think about taxes and
15 business growth. The first thing,
16 though, I suggest is, we need to worry
17 about reducing revenue to such an extent
18 that we can't make the investments in our
19 commercial corridors and helping
20 businesses attain the capital they need
21 to start up, and improving streetscapes
22 and improving the Department of L&I and
23 the other departments that are such
24 barriers to business development.

25 If we cut our taxes to such an

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 extent that we don't have the funds to
3 make these investments, I think we lose
4 some of the greatest opportunities we
5 have for improving our economy. And just
6 as a parenthesis, I want to say the model
7 I'm suggesting for economic development
8 is a community-based economic development
9 model, one in which CDCs, other local
10 agencies work with small businesses and
11 with the City to grow our economy. And
12 when one wants to find an example of how
13 that could be successful, I'd say look at
14 the South Bronx, which, despite the high
15 taxes in New York and other problems in
16 New York, has seen an almost miraculous
17 recovery largely to due to the CDC
18 movement and the community-based economic
19 development movement.

20 But let me come back to taxes.
21 Suppose we want to focus on taxes as a
22 way of growing our economy. Well, first
23 I'd suggest we need to reduce taxes on
24 low-income residents, and that means we
25 need to keep the Cohen tax credit for the

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 working poor.

3 If we want to grow businesses
4 in our commercial corridors, we need to
5 increase demand for the goods and
6 services those businesses supply.
7 Reducing taxes on our low-income workers
8 is one way to increase that demand. It
9 doesn't really make sense to invest in
10 commercial corridors, particularly in
11 distressed neighborhoods, if we're not at
12 the same time giving our workers the
13 means to buy goods from those businesses.

14 Second of all, I suggest we
15 have to deal with property taxes, because
16 as neighborhoods improve, then there's
17 the likelihood that gentrification takes
18 place and that a greater burden is placed
19 on residents who live through the bad
20 times in the neighborhoods and really
21 deserve to stay in the City for the good
22 times.

23 And after we deal with those
24 two tax issues, then I suggest we come to
25 the business privilege tax, and here I

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 may disagree a bit with my friends from
3 One Philadelphia in that I actually truly
4 do think the business privilege tax is a
5 bad tax. Like most business taxes, it
6 falls, on the one hand, on consumers, in
7 which case it's really a more aggressive
8 tax than our sales tax, which has
9 exemptions for medicine and food, and it
10 falls, on the other side, on capital, but
11 it's a very unfair tax in that there's
12 absolutely no progressivity and an
13 important part of the tax is paid on
14 gross revenues.

15 So I suggest we do begin to
16 reduce the business privilege tax as a
17 way of growing the economy, but I would
18 suggest we do it not by general cuts, but
19 by focusing our cuts on small businesses,
20 businesses with few employees and by
21 focusing our cuts on start-up businesses.
22 And I know there's some question about
23 whether we can do that under the
24 Uniformity Clause. We've consulted with
25 attorneys who have looked over the case

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 law, and they suggest that in fact we can
3 do that. It seems to me that's a much
4 more equitable way of reducing the
5 business privilege tax, and it's also a
6 way that gives us more bang for the buck,
7 that really helps support the small
8 businesses that are the prime engine of
9 economic growth and job creation in the
10 City.

11 Lastly, I would say when it
12 comes to taxes, it's very important, at
13 least in the short run, the tax changes
14 we make are revenue neutral. While I
15 want to see cuts in the business
16 privilege tax, I think we need to do that
17 without sacrificing revenues. It may
18 well be that over the long term, cuts in
19 the business privilege tax will lead to
20 economic growth, will lead to higher
21 property taxes and so forth, but my
22 suggestion is, that is going to be a
23 little longer than many people expect.
24 Most of the econometric research on this
25 question looks at -- was done at a time

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 when businesses were leaving the City,
3 when there were trends in the City where
4 people were leaving for lots of different
5 reasons, when businesses were prepared to
6 leave the City and at one point maybe
7 another tax increase was the last straw.

8 Getting people back into the
9 City I think is going to take a lot more
10 than reducing the business privilege tax
11 and it's going to take a little longer
12 than most people expect.

13 So the question I would think
14 you would want to ask me then is, how do
15 we have revenue-neutral cuts in the
16 business privilege tax? I suggest we
17 look elsewhere for revenues. Ms. Ward
18 suggested some alternatives. I suggest
19 we take a serious look at creating a
20 personal income tax in the City. This
21 was a proposal the Tax Reform Commission
22 looked at quite closely. My
23 understanding is, they came close to
24 endorsing it, but they didn't have the
25 data from the City that would enable them

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 to fully understand its impact. But one
3 estimate suggested that by creating a
4 personal income tax, we could raise an
5 additional \$70 million at the same tax
6 rates that we have presently in place.

7 Now, a personal income
8 tax/revenue wage tax expands the tax to
9 capital, to interest and dividends. I
10 would suggest that would be a fair trade
11 for a very large cut in the business
12 privilege tax, which is also a tax on
13 capital. It would be a much more
14 progressive way, a much fairer way and a
15 much more sensible way of taxing capital.
16 And as some folks suggest, cuts in the
17 business privilege tax would over time
18 lead to growing economy, and the other
19 proposals I've suggested would also lead
20 to a growing economy.

21 We could then gradually reduce
22 that personal income tax to much lower
23 rates, and, of course, we'd be able to
24 reduce it anyway because we're going to
25 get the gambling revenues eventually,

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 which would allow us to reduce that tax.

3 So my suggestion then is, we
4 take a very broad look at how to draw the
5 economy and not focus just on taxes, but
6 focus on the kind of investments the City
7 can make to help our economies grow, to
8 focus on the neighborhoods that really
9 need the economic development in this
10 City.

11 Thank you very much.

12 COUNCIL PRESIDENT VERNA:

13 You're welcome.

14 Mr. Shapiro, are you going
15 to --

16 MR. SHAPIRO: Yes.

17 Justice, equity, fairness,
18 progressivity. These are words which
19 should be central to any discussion of
20 taxes in Philadelphia.

21 Less than two years ago, this
22 Council took those words very seriously
23 when it enacted Councilman Cohen's
24 landmark proposal to exempt low-wage
25 workers from a major portion of the wage

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 tax.

3 I hope that Council continues
4 to respect those important words. Too
5 many of our leaders, particularly in the
6 business community, would have the
7 Council focus instead on, quote, being
8 realistic, unquote. To them, being
9 realistic means viewing taxes solely as
10 an economic development tool. Thus, we
11 have heard today, businesses can march
12 with their feet to wherever the tax price
13 is right. We must retain and attract
14 business. Thus, we must keep reducing
15 business taxes. And that must be our
16 first, if not only, priority in tax
17 policy.

18 But is that just? Is that
19 fair? Is that equitable? Because poor
20 and working people can't readily flee
21 this City, that doesn't make it right to
22 impose high wage and property taxes on
23 them. I don't think we've yet adopted in
24 this City the notion that people who are
25 poor deserve to be poor. Thus, we need

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 not care for or about them. They are
3 poor because industries and government
4 have abandoned all cities, not just
5 Philadelphia, and because jobs that are
6 left are largely low-paying jobs.
7 Traditional liberals, and I think that
8 there are some of us left, believe that
9 government's highest calling is to ease
10 the burdens that a cut-throat economy
11 imposes on the poor.

12 So the question before the
13 Council is whether a cold-blooded
14 utilitarianism should be the only
15 principle at work in making tax policy.

16 This fundamental policy
17 question is more starkly posed this year
18 than most, since the Administration has
19 put forward bills that would cut business
20 taxes and raise taxes on the poor at the
21 same time. Passing those bills would put
22 Council in lockstep with Congress, where
23 benefit programs for the poor were just
24 cut in order to find room for tax cuts
25 for the wealthy. There too, the

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 justification is, "Well, that's what
3 works to get the economy going."

4 One Philadelphia doesn't agree
5 that business tax cuts do work. And we
6 don't think anyone without a crystal ball
7 can prove otherwise. All we know for
8 sure when we cut business taxes is that
9 we've cut taxes for business. And all we
10 know when we cut taxes for working people
11 is that we've reduced the burden of being
12 poor. When this is all we know, the
13 choice should really be an easy one. If
14 there's money for tax cuts, let's help
15 those who may otherwise need to choose
16 between food and shelter.

17 Apparently, the Mayor and the
18 business community are clear that there
19 is money for tax cuts. That leaves no
20 justification whatsoever for repealing
21 the Cohen tax cuts and replacing them
22 with business tax cuts. If some of the
23 Cohen tax cuts are later found
24 unaffordable, then let's look for other
25 sources of revenue. We've heard

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 discussion of some of them from the
3 previous witnesses. Perhaps we should
4 look at an income tax, one which taxes
5 all income, not just wages, and one which
6 is graduated. Or perhaps we should look
7 at broadening the base of the business
8 privilege tax so that banks and others
9 that now get preferential treatment pay
10 their fair share. But let's not first
11 impose burdens on those least able to
12 bear them.

13 Cities with class, whether
14 world class or otherwise, just don't do
15 such things.

16 Thank you.

17 COUNCIL PRESIDENT VERNA: Thank
18 you very much.

19 Are there any questions from
20 members of the Committee?

21 The Chair recognizes Councilman
22 Nutter.

23 COUNCILMAN NUTTER: Thank you,
24 Madam Chair.

25 First let me say that I was

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 very pleased and proud to have played
3 some role in the enactment of the bill
4 that's now under some measure of attack,
5 having worked with Councilman Cohen on
6 the legislation, developed a schedule and
7 worked with him on moving it to a time
8 that, as you indicated from the
9 testimony, would not go into effect until
10 2010. And that was a fine piece of work
11 by Councilman Cohen.

12 It does strike me and it's been
13 mentioned a couple times here this
14 morning that we've been down a couple of
15 these roads before. Although having
16 great love of irony, I do find it quite
17 interesting that last year the bulk of
18 the testimony from the organization
19 generally known as One Philadelphia was
20 primarily targeted at trying to make sure
21 that we did not take any action on taxes
22 in any way, shape or form and you now
23 find yourselves, I guess, with a bit of
24 the shoe on the other foot, now finding
25 yourself under attack for a piece of

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 legislation that you worked on, where you
3 now feel that you have to fight to hold
4 on to something.

5 So I guess in the course of the
6 last year, we've all pretty much had the
7 same experience, just in different ways,
8 and so it is an interesting irony that
9 you find yourselves in this position this
10 year.

11 Why do you think this proposal
12 is in front of us?

13 MR. SHAPIRO: Why do we believe
14 the proposal to repeal the Cohen tax cuts
15 is before us?

16 COUNCILMAN NUTTER: Yes.

17 MR. SHAPIRO: You really would
18 have to ask the Mayor that. I really
19 certainly could not --

20 COUNCILMAN NUTTER: Well, I
21 understand, and I often do ask the Mayor
22 his opinion about different things, and
23 he is never shy about letting me know,
24 but since you're at the witness table, I
25 thought I'd ask why do you think the

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 Administration sent this bill up here.

3 MR. SHAPIRO: I really can't
4 say any more than what the Administration
5 has said. The Administration has said
6 that --

7 COUNCILMAN NUTTER: Well, they
8 haven't testified yet.

9 MR. SHAPIRO: -- in the Mayor's
10 budget address that there was going to be
11 a budget problem in the out years if the
12 bill remained intact. That's what I
13 recall the Mayor having said.

14 MR. STEIN: And Councilman
15 Nutter --

16 COUNCILMAN NUTTER: Do you not
17 share and -- go ahead.

18 MR. STEIN: We did, Councilman
19 Nutter, look at those numbers, and it's
20 just not comprehensible. Because when
21 you look at the estimated cost for Fiscal
22 Year '10 and '11, even if you implemented
23 the ordinance -- and I wouldn't call it
24 the Cohen ordinance. I'd call it the
25 City Council ordinance, because this body

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 voted for it, overrode a mayoral veto and
3 should take pride in it. That ordinance,
4 even if implemented in 2010, 2011, would
5 still allow a budget surplus, a fund
6 balance for those two out of years of the
7 Five-Year Plan. So there's no rational
8 basis that we see in this proposal. I'm
9 not sure that answers your question
10 adequately, but that's my response.

11 COUNCILMAN NUTTER: Not really.
12 I mean, do you think the Administration
13 has any concern that the lessening of
14 those revenues or giving up those
15 revenues would have any impact on our
16 ability to provide services?

17 MR. SHAPIRO: Again, you really
18 would have to ask them. I believe
19 they're going to testify later on, and
20 I'll be very interested in that answer as
21 well.

22 COUNCILMAN NUTTER: So is it
23 the consistent position across One
24 Philadelphia that the bill should not be
25 repealed?

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 MR. SHAPIRO: We have not --
3 those of us who are here are speaking to
4 the principles that we as individuals
5 will be bringing to that discussion in
6 One Philadelphia. One Philadelphia has
7 not taken a formal position, and I did
8 try to say this at the beginning, has not
9 taken a formal position on any of these
10 bills in front of us. We're talking
11 about general principles.

12 Some of us as individuals have
13 very strong positions, which we pretty
14 much articulated, and we are all
15 grappling with this inside One
16 Philadelphia, but we've not as an
17 organization taken a position.

18 MR. STEIN: But, Councilman, I,
19 speaking as general counsel of Community
20 Legal Services who represents thousands
21 of people in this group of lower-income
22 working poor, I mean, in my mind, I have
23 a very definite opinion that this
24 ordinance should not be repealed.

25 COUNCILMAN NUTTER: I guess I'm

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 a little surprised that there would be,
3 given the general focus of the
4 organization as I know it, why would
5 there be a dispute within the ranks of
6 One Philadelphia about something like
7 this?

8 MR. SHAPIRO: I don't know if
9 it's a question of disputes. There is
10 discussion. There is a concern that
11 there might be an impact on services if
12 there are any tax cuts, either those that
13 are scheduled to go into effect already
14 or those that might be added on. And I
15 think we are unanimous in One
16 Philadelphia that we don't think the City
17 can afford any further service cuts and
18 that service cuts which have already been
19 put in place ought to be turned around.

20 So that's a concern that some
21 of us have. Others of us feel that the
22 tax cuts that are scheduled for low-wage
23 workers will themselves have an extremely
24 positive economic development effect on
25 the City; that tax cuts for poor folks

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 and working folks, especially who live in
3 the City of Philadelphia, get you the
4 most bang for the buck; and that it may
5 well be that as we get closer to the time
6 when those tax cuts are actually
7 scheduled to be implemented, we can find
8 even more as a consensus that those tax
9 cuts are not a threat to City services.

10 But I think the discussion is
11 really, as Jonathan pointed out, it's a
12 very premature discussion. These tax
13 cuts will not go into place until 2010.
14 There is no need to enact -- there's no
15 one who has been able to --

16 COUNCILMAN NUTTER: I'm pretty
17 clear on that. I wrote the schedule.

18 MR. SHAPIRO: Yes. Right, you
19 did, and thank you for that.

20 COUNCILMAN NUTTER: Just doing
21 my job.

22 MR. SHAPIRO: But there is no
23 current impact that repeal of that bill
24 would have on the City budget. It is way
25 premature to really even be looking at

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 that matter, and so we want to -- those
3 of us who have that point of view want to
4 put it forward.

5 COUNCILMAN NUTTER: Well,
6 there's a word that was mentioned earlier
7 which I always enjoy. I don't use it
8 much myself, but it was the "conundrum"
9 word. It seems like you find yourself in
10 a bit of a conundrum with your argument,
11 only in that I heard you say earlier that
12 there's a positive economic impact by
13 reducing this tax on a certain population
14 of people, but you've argued in the past
15 that you don't get virtually -- not just
16 the past, I think in the current
17 testimony -- that you don't see any
18 economic impact from reducing other
19 taxes. How can you have it both ways?

20 MR. SHAPIRO: Well, the fact
21 is --

22 COUNCILMAN NUTTER: The
23 overwhelming -- let me finish. The
24 overwhelming majority of businesses in
25 Philadelphia are small businesses.

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 MR. SHAPIRO: That may well be
3 true.

4 COUNCILMAN NUTTER: No. It's
5 very true.

6 MR. SHAPIRO: But that doesn't
7 necessarily mean that the benefits that
8 they get -- and we actually have been
9 kind of clear that we think --

10 COUNCILMAN NUTTER: They're
11 probably more likely to hire
12 Philadelphians and neighborhood people
13 since they're so small.

14 MR. SHAPIRO: We do think that
15 cuts in the business privilege tax, if
16 they take place and if they are revenue
17 neutral, should be focused on smaller
18 neighborhood businesses. We've testified
19 to that a number of times, including
20 today.

21 COUNCILMAN NUTTER: Whatever we
22 do with taxes, small neighborhood
23 businesses get whatever their
24 proportionate benefit are anyway, right?

25 MR. SHAPIRO: Well, yeah, but

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 if the --

3 COUNCILMAN NUTTER: I mean, the
4 tax cut is for everybody.

5 MR. SHAPIRO: If the proportion
6 is a small proportion or even a less than
7 100 percent proportion of a tax cut which
8 is only needed for them, then it's sort
9 of a waste of City revenue to also throw
10 money at businesses which don't need that
11 tax cut.

12 COUNCILMAN NUTTER: Well, you'd
13 probably have to go through -- I mean, in
14 2003, tax year 2003, you had 79,000
15 filers.

16 MR. SHAPIRO: 79,000?

17 COUNCILMAN NUTTER: 79,000
18 filers on BPT. So unless you're prepared
19 to go through and analyze each individual
20 business's circumstances to see whether
21 or not they, quote/unquote, need the cut,
22 I mean, you're either going to do across
23 the board or -- I mean, I've had some
24 thoughts, and I'm sure other members have
25 had some thoughts, about more targeted

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 for that. I got my props a long time
3 ago.

4 I would say, though, gentlemen,
5 you have crowded out Ms. Ward, who was up
6 at the table first and now you guys have
7 taken up all the room. So I'd love to
8 hear her perspective on some of these
9 matters.

10 I know they all have generally
11 better manners than that, Ms. Ward, but
12 they've gotten beside themselves.

13 What's your --

14 MS. WARD: Manners were wanting
15 today.

16 COUNCILMAN NUTTER: I'm sorry?

17 MS. WARD: Manners were wanting
18 today. I'm sorry. Go ahead, Councilman.

19 COUNCILMAN NUTTER: Okay. Why
20 do you think this bill is in front of us?

21 MS. WARD: I can't answer that
22 question.

23 COUNCILMAN NUTTER: But you
24 disagree with it?

25 MS. WARD: I think Stan has

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 told you One Philadelphia's position.

3 Let me tell you PCCY's position, since

4 I'm here reflecting that.

5 Our overall position is that we
6 are most concerned about the City's
7 ability to deliver services to its
8 citizens, and that our number one
9 priority is adequacy of revenue. Within
10 that context, we believe that our tax
11 system needs to be fair and equitable and
12 needs to allow individuals to be able to
13 support themselves.

14 So at this point, PCCY's
15 position is that we oppose the repeal of
16 the Cohen bill. We believe that based on
17 our work with the state tax forgiveness
18 and the Earned Income Tax Credit
19 legislation, that the economic impact
20 estimates are way overblown. We believe
21 that they will have -- that the cost to
22 the City is much less than is projected
23 in the Five-Year Plan. We think that the
24 impact, therefore, will not be as
25 detrimental to the City's ability to

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 deliver services.

3 COUNCILMAN NUTTER: Given your
4 concern about services, if the purpose of
5 the bill, from the Administration's
6 perspective, is because of their concern
7 with regard to the impact on service
8 delivery, what would your position be?

9 MS. WARD: Well, I'm sure
10 that's probably the case. As I testified
11 today --

12 COUNCILMAN NUTTER: Are you
13 saying that you don't believe them?

14 MS. WARD: No. Councilman, as
15 I testified today, the City and your
16 efforts are around trying to balance a
17 variety of needs, and I think what you've
18 heard from One Philadelphia and from me
19 today is that we believe that there needs
20 to be the capacity to balance all of
21 those needs and that we didn't think
22 eliminating the business privilege tax
23 would do that.

24 As I indicated, if we want to
25 maintain services, protect low-income tax

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 forgiveness and grow jobs, we simply
3 thought that there were a variety of
4 different strategies and that eliminating
5 the business privilege tax is not one of
6 them. Does that mean that there would be
7 some loss of revenue if we have tax
8 forgiveness for low-income workers?
9 Certainly that's the case.

10 We also suggested, as Mark did,
11 in a variety of proposals that we've been
12 discussing that might actually help to
13 generate additional revenue for the City.
14 Our position is for, at least on the
15 business privilege tax side,
16 revenue-neutral tax reduction, and we are
17 happy to work with Councilmembers in
18 identifying some strategies that might be
19 able to do that.

20 COUNCILMAN NUTTER: This is my
21 last question. Are you opposed to the
22 Administration's BPT reduction bill?

23 MS. WARD: The One Philadelphia
24 position is that we believe that in the
25 first year, it accelerates reductions in

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 the gross receipts tax. We're not
3 opposed to that. We're concerned about
4 elimination of the gross receipts tax
5 over time. That's our position.

6 COUNCILMAN NUTTER: Okay. So
7 you support the additional reduction in
8 the business privilege tax and you oppose
9 the repeal of the low-income wage tax
10 bill?

11 MS. WARD: Well, let me clarify
12 our position, because I think I misstated
13 it. Our position around business
14 privilege tax reduction, I'm sorry, is
15 that we would prefer to see more targeted
16 tax reductions that don't cost a lot of
17 money and that might help to address the
18 needs of neighborhood and small
19 businesses.

20 Is that an accurate reflection
21 of our position?

22 MR. STIER: That's it.

23 I think central to our view is
24 that --

25 COUNCILMAN NUTTER: I

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 understand that, but there's going to be
3 a bill that's going to come up for a vote
4 one day, and I appreciate everything you
5 said. Sometimes we get to make a comment
6 or even a speech to the Chief Clerk, but
7 she really kind of insists on a yes or a
8 no when all of that is done.

9 So you're in support of the
10 Administration's proposed reduction of
11 the business privilege tax. You're
12 opposed to --

13 MR. STIER: No. We oppose it.

14 COUNCILMAN NUTTER: -- the
15 repeal of the low-income wage tax, right?

16 MR. STIER: We're opposed to
17 the Administration's reduction of the
18 BPT.

19 MS. WARD: That's correct.

20 COUNCILMAN NUTTER: You're
21 opposed to the Administration's reduction
22 of the BPT. Okay. All right. Thanks.

23 Thank you, Madam President.

24 COUNCIL PRESIDENT VERNA:

25 You're welcome.

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 Are there any other questions
3 from members of the Committee?

4 (No response.)

5 COUNCIL PRESIDENT VERNA:

6 Seeing none --

7 MR. SHAPIRO: Thank you.

8 COUNCIL PRESIDENT VERNA: Thank
9 you all for coming in.

10 Brian Carrigan. Is Brian
11 Carrigan here?

12 (No response.)

13 COUNCIL PRESIDENT VERNA:

14 Philip Kelton. Is Mr. Kelton here?

15 (No response.)

16 MR. McPHERSON: Mr. Mark

17 Merlini.

18 COUNCIL PRESIDENT VERNA: Good
19 afternoon. Thank you so much for your
20 patience. Please identify yourself for
21 the record and proceed with your
22 testimony.

23 MR. MERLINI: Good afternoon,
24 President Verna and distinguished members
25 of Council who are still here. My name

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 is Mark Merlini, and I'm a partner and
3 Vice-President of Brickstone Realty. Our
4 company has developed nearly 4 million
5 square feet of office and retail space on
6 East Market Street, including the
7 Wanamaker Building, the Lit Brothers
8 Building, 1234 Market Street and City
9 Hall Annex, which is now the 400-room
10 Marriott Courtyard. I am here today as
11 Chairman of the Building Owners and
12 Managers Association of Philadelphia,
13 commonly referred to as BOMA, in support
14 of the reduction of the business
15 privilege tax.

16 BOMA representatives have
17 appeared before Council on a number of
18 occasions advocating on behalf of
19 meaningful tax reform. Our goal
20 continues to be to work with Council and
21 other interested parties to build a
22 strong, economically vibrant Philadelphia
23 by creating an environment which will
24 attract and retain jobs within the City
25 limits. By making Philadelphia an

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 appealing place to do business, the City
3 will build a firm foundation on which it
4 can grow and prosper.

5 Creating the Philadelphia of
6 the future should be a broad-based
7 effort. The time has come to move beyond
8 the stereotypes of yesteryear, big versus
9 small business, Center City versus the
10 neighborhoods, the business community
11 versus private citizens. In one way or
12 another, the City's tax structure affects
13 us all. Furthermore, by working
14 together, the various groups and
15 coalitions within the City can rework the
16 tax structure in such a way that it will
17 be the catalyst for growth and prosperity
18 for all.

19 Several years ago, Council made
20 a bold move to help stimulate the City by
21 offering a ten-year tax abatement for new
22 housing development and renovations. To
23 this, we say kudos. It worked. Look at
24 what's taking place throughout the City.
25 We have a rejuvenated residential

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 marketplace, one that has had a profound
3 impact on property values for all City
4 residents. There are also new
5 opportunities for small businesses and
6 retailers who seek to cater to those
7 living within the City. Furthermore, the
8 quality of the labor pool has been
9 improved, which in turn bodes well for
10 attracting new companies.

11 Now is the time for us to set
12 the next bold initiative into motion.
13 Now is the time to take the step in
14 making Philadelphia great.

15 The fact of the matter is, is
16 that the current business tax structure
17 in this City is not what it could be or
18 should be. Within the business
19 community, it is one of the significant
20 factors cited by companies as they decide
21 whether to locate their offices in
22 Philadelphia or to locate them in
23 suburban or other locations. The reality
24 is, because of the business privilege tax
25 and the use and occupancy tax burden, the

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 cost of doing business in Philadelphia is
3 on average \$4.97 per square foot greater
4 than it is in suburban locations.

5 To a 100,000 square foot firm,
6 this represents almost a half a million
7 dollars in annual tax burden. I ask if
8 this were your company and you're faced
9 with the decision, Location A, located in
10 the City, which had an additional
11 \$500,000 annual cost, versus Location B,
12 outside of the City, without the burden,
13 which would you choose? You couple this
14 with the factor that the more profitable
15 your organization is, the greater the
16 burden, this makes the decision all that
17 much easier. You would probably opt for
18 Location B.

19 One of the ways in which we can
20 better compete for jobs and employers
21 locally and regionally is to change the
22 public perception of the way in which
23 business is done here. We advocate
24 broad-based reform which will foster even
25 greater economic growth. Your existing

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 constituents will be served by providing
3 new jobs and greater economic
4 opportunities. A larger employee base
5 will in turn increase City revenues
6 through wage taxes, and a higher real
7 estate tax revenue should result from
8 increased property values due to higher
9 occupancy.

10 Thanks to Council's excellent
11 management and the resulting flexibility
12 in the City budget, now is the time to
13 institute changes to the City tax code.
14 Thanks, too, to all who have introduced
15 business privilege tax reform legislation
16 that will pave the way for new and
17 improved Philadelphia. BOMA's position
18 continues to be that legislation approved
19 by this body must involve cuts to both
20 the gross receipts and net profits
21 portion of the business privilege tax
22 calculation. In order to have a
23 meaningful impact, these reductions must
24 be multi-year in nature. Companies do
25 not make business decisions on

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 single-year fiscal policy.

3 Philadelphia cannot delay in
4 its pursuit of increased business
5 opportunities, jobs and revenue. By
6 attracting the companies and industries
7 of the future, the City will move forward
8 towards brighter horizons. Meaningful
9 tax reform today will ensure the City's
10 future prosperity. As a body, you have
11 the power to effect positive change and
12 public policy. You have the power to
13 give Philadelphia that competitive edge
14 that will make its future bright and
15 optimistic.

16 Thank you.

17 COUNCIL PRESIDENT VERNA: Thank
18 you, sir.

19 Any questions from members of
20 the Committee?

21 (No response.)

22 COUNCIL PRESIDENT VERNA:
23 Seeing none, again, I thank you.

24 Our next witness?

25 MR. McPHERSON: Stewart

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 Weintraub.

3 COUNCILWOMAN BLACKWELL: Madam
4 President.

5 COUNCIL PRESIDENT VERNA: Yes,
6 Councilwoman Blackwell.

7 COUNCILWOMAN BLACKWELL: I
8 suppose this is the proper time for me to
9 deliver testimony for Councilwoman
10 Blondell Reynolds Brown.

11 COUNCIL PRESIDENT VERNA: That
12 would be fine.

13 COUNCILWOMAN BLACKWELL: Thank
14 you.

15 Councilwoman Blondell Reynolds
16 Brown is out today and I'm reading her
17 statement with regard to Bill No. 060014,
18 bookbinding BPT correction.

19 It is my pleasure to offer Bill
20 No. 060014 to the Committee of the Whole
21 today.

22 Prior to the enactment of the
23 BPT, the law allowed bookbinders to
24 exclude from gross receipts the receipts
25 they derive from deliveries outside the

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 City. When the BPT was enacted, the
3 provision of the law allowing bookbinders
4 to exclude from gross receipts the
5 receipts they derive from deliveries
6 outside of the City was inadvertently
7 changed. As a result of this change,
8 what had been a thriving industry in
9 Philadelphia has suffered losses arising
10 from small businesses either leaving the
11 City or closing their doors. The result
12 was the loss of neighborhood jobs in the
13 City. This amendment is intended to
14 restore the binding industry the
15 exclusion to which they had been entitled
16 prior to the enactment of the BPT.

17 It is my hope that through this
18 bill, we can correct a mistake from the
19 past and assist this important industry
20 to thrive in Philadelphia.

21 Thank you, Madam President.
22 And I'll make this statement as part of
23 the record as well.

24 COUNCIL PRESIDENT VERNA: That
25 would be fine.

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 Mr. Weintraub, thank you for
3 your patience. Please proceed with your
4 testimony.

5 MR. WEINTRAUB: Thank you,
6 Madam Council President. I'm here
7 today -- I guess this is the third time
8 I've been up at this table this morning.
9 This time I'm here as the attorney for
10 Oxford Bookbinding Company, one of the
11 affected taxpayers in the industry for
12 which this bill has been introduced.

13 My testimony was going to be
14 basically laying out how we got to where
15 we are today from a technical and
16 historical perspective. Councilwoman
17 Blackwell's reading of Councilwoman
18 Reynolds Brown's statement basically
19 incorporated most of what I was going to
20 say.

21 I may be repeating a little bit
22 of it, but let me just say for the
23 record, there was a provision in the old
24 mercantile license tax, which pre-dated
25 the business privilege tax, that allowed

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 the bookbinding industry and others to
3 exclude their deliveries outside the City
4 from gross receipts and now in the
5 business privilege tax from net income.

6 The definitions in the business
7 privilege tax changed that interpretation
8 of the law, and as a result, the City's
9 position has been to deny bookbinders and
10 others similarly situated the right to
11 this exclusion.

12 We are asking City Council
13 today, just like they did ten years ago
14 in 1996 when a similar amendment was made
15 with respect to the dying industry, to
16 restore the exclusion to gross receipts
17 that the business privilege tax would
18 provide.

19 I have two witnesses with me
20 today. One of them stepped out, and I
21 know she will be back in a moment.
22 Margaret Baumhauer, who is the Executive
23 Director of the Graphic Arts Association.
24 Until she returns, what I'd like to do is
25 introduce Stewart Gritz, who is the

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 President and sole shareholder of Oxford
3 Bookbinding Company, so he can explain to
4 you how this tax as in its current
5 structure affects his business.

6 COUNCIL PRESIDENT VERNA:
7 Before Mr. Gritz testifies, can you tell
8 us how many bookbinding companies we have
9 in the City?

10 MR. WEINTRAUB: I can, but if I
11 might, Ms. Baumhauer just arrived and
12 that's part of her testimony. She will
13 be answering that in her testimony. So
14 why don't --

15 COUNCIL PRESIDENT VERNA:
16 Mr. Gritz, why don't you proceed.

17 MR. WEINTRAUB: If I can.

18 COUNCIL PRESIDENT VERNA:
19 That's okay.

20 MR. WEINTRAUB: Let me let
21 Ms. Baumhauer testify first.

22 COUNCIL PRESIDENT VERNA:
23 That's fine.

24 MR. WEINTRAUB: Ms. Margaret
25 Baumhauer, who is the Executive Director

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 of the Graphic Arts Association, is going
3 to describe for Council the structure of
4 the Association, the demographics of the
5 Association and how the Association has
6 changed over the years.

7 MS. BAUMHAUER: Thank you.

8 Good afternoon, Madam President
9 and members of Council. As Stewart
10 mentioned, I'm President of the Graphic
11 Arts Association. We're the trade
12 association for the printing industry in
13 Pennsylvania, New Jersey and Delaware.

14 I've been asked to give a brief
15 summary of the binding industry section
16 within Philadelphia in the last 20 years.
17 As far as I can tell from our records, we
18 had 26 bindery members in Philadelphia in
19 the early '80s. They employed
20 approximately 800 people. I'm sure that
21 there were a few companies that were not
22 members of the Association, but I can't
23 tell you how many.

24 Of these 26, six have moved to
25 Bucks County. Ten are now out of

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 business. Most of them moved and went
3 out of business in the late '80s, early
4 '90s. There are approximately ten
5 binders left in the City. They employ
6 about 250 people, total sales of about
7 \$22 million. And I just got a phone call
8 two weeks ago from one of our members who
9 wanted to know what they would have to --
10 some of the legal implications of moving
11 to New Jersey.

12 COUNCIL PRESIDENT VERNA: And
13 if we were to do this, how much would the
14 City really be losing financially?

15 MR. WEINTRAUB: Madam
16 President, I believe Commissioner
17 Kammerdeiner, who is here and will be
18 testifying for the Administration, has
19 that information. What has been provided
20 to me is that it is a minimal impact on
21 the budget.

22 COUNCIL PRESIDENT VERNA: Is
23 this an Administration bill?

24 MR. WEINTRAUB: No, it was not.

25 COUNCIL PRESIDENT VERNA: Okay.

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 Fine.

3 MR. WEINTRAUB: Now if
4 Mr. Gritz can now proceed with his
5 testimony, I'd appreciate that.

6 COUNCIL PRESIDENT VERNA: As
7 long as you say so.

8 Mr. Gritz.

9 MR. GRITZ: Good afternoon.
10 Madam President and members of City
11 Council, my name is Stewart Gritz. I'm
12 the President and sole shareholder of
13 Oxford Bookbinding Company. I'm here
14 today to urge the passage of Bill No.
15 060014.

16 Oxford is located at 3101 Red
17 Lion Road in Northeast Philadelphia
18 across from the Northeast Philadelphia
19 Airport where 30 employees work in its
20 57,000 square foot plant.

21 Oxford is in the business of
22 binding and finishing printed matter,
23 such as books, brochures, point of
24 purchase displays, CD sleeves, et cetera,
25 for a diverse group of end customers

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 throughout the Midatlantic region. We
3 receive printed matter from commercial
4 printers and bind and finish the product.
5 We bind and finish products for major
6 financial institutions, pharmaceutical
7 companies, schools, sports teams, et
8 cetera, within the region.

9 Oxford is a very old
10 Philadelphia company. It's been in
11 Philadelphia for 140 years, since 1866.
12 Almost 60 years ago, in 1947, my father
13 purchased the company and he managed it
14 with his brother, my uncle, until 1978.
15 During 1978, my father sold the company
16 to my uncle, who continued to operate the
17 company with his son, my cousin, until
18 1994, when he sold the company to my
19 cousin. In 1998, I purchased the company
20 from my cousin.

21 Mr. Weintraub has already
22 described how Philadelphia's business
23 taxes have developed and how they have
24 been applied to the bookbinding industry.
25 I would like to describe the unfairness

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 of the business privilege tax as it is
3 presently being applied to the
4 bookbinding industry.

5 First, Oxford is being denied
6 the benefit of the exclusion this
7 amendment would restore solely because it
8 does not own the paper upon which the
9 printed material is printed. There is no
10 question that the printer who provides
11 Oxford the printed material receives a
12 benefit of the exclusion Oxford is being
13 denied because it purchased the paper
14 upon which the printed material was
15 printed.

16 Similarly, there is no question
17 that the printer who prints the printed
18 material and does the same thing Oxford
19 does, binding and finishing the product,
20 receives the benefit of the exclusion
21 Oxford is being denied. In other words,
22 we, the binders and finishers, are the
23 only ones who are denied the benefit of
24 the exclusion.

25 Second, I must convey to you

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 why as a longstanding Philadelphia
3 business owner and long-time paying
4 Philadelphia taxpayer I find the
5 situation so frustrating. As I noted
6 earlier, Oxford is located near the
7 Northeast Philadelphia Airport. Oxford's
8 location is also directly across the
9 street from the Keystone Opportunity Zone
10 located in the Northeast Philadelphia
11 Industrial Park and a short distance from
12 the Philadelphia-Bucks County line. If
13 Oxford bookbinder were to locate within
14 the KOZ or across the county line in
15 Bucks County, Oxford would have a
16 significant competitive advantage,
17 because it then would be able to operate
18 without paying any of Philadelphia's
19 business taxes.

20 I am not here today asking for
21 wholesale tax relief, nor am I here today
22 threatening to leave the City. Instead,
23 I am only requesting legislative relief
24 from the blatant unfairness of this quirk
25 in the business privilege tax law as it

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 is being applied.

3 This is especially important to
4 Oxford now. Since I acquired the
5 company, I have been fortunate enough to
6 see the business grow. Oxford has grown
7 to the point where we have outgrown our
8 current facility. I must now make a
9 decision. I can expand Oxford's capital
10 facilities and workforce or I can review
11 my other alternatives. I can move Oxford
12 to a Keystone Opportunity Zone or I can
13 move Oxford a few miles away into Bucks
14 County.

15 I love Philadelphia. My
16 preference would be to keep my business
17 where it is and where it has been for
18 several generations. I would like to
19 expand Oxford's present facility.
20 Regardless of what I do, I must make a
21 significant investment in my business. I
22 also need to continuously analyze my
23 costs so I can remain competitive with
24 businesses in the suburbs and New Jersey.

25 While your enactment of this

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 amendment will not totally level the tax
3 playing field, it will at least
4 demonstrate a recognition that the City
5 cares about imposing a fair tax structure
6 and that the City Council values the many
7 small companies which make this City
8 great. I urge the passage of Bill No.
9 060014.

10 COUNCIL PRESIDENT VERNA: Thank
11 you very much.

12 Are there any questions from
13 members of the Committee?

14 (No response.)

15 COUNCIL PRESIDENT VERNA:
16 Seeing none, gentlemen, thank you.

17 Could we have the Revenue
18 Commissioner come up, please.

19 Are you able to testify on this
20 bill at this time?

21 COMMISSIONER KAMMERDEINER:
22 Yes, I am. I have some testimony that I
23 can share.

24 COUNCIL PRESIDENT VERNA:
25 Please proceed.

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 COMMISSIONER KAMMERDEINER:

3 Good afternoon, President Verna, members
4 of City Council. I'm Nancy Kammerdeiner,
5 Revenue Commissioner. I'm pleased to be
6 with you today regarding Bill No. 060014.

7 As has already been stated,
8 this ordinance will amend Section 19-2600
9 of The Philadelphia Code and it will add
10 a new exception from the definition of
11 "Receipts." Because of the precedent
12 this bill would establish, the
13 Administration does not support its
14 passage at this time.

15 This bill would add a new
16 Paragraph 12 to the list of receipts that
17 are excluded from the definition of
18 "Receipts" for the purpose of calculating
19 the business privilege tax. Beginning
20 with tax year 2006 and in the tax years
21 that follow, the receipts or portions of
22 receipts attributable to the delivery of
23 goods, wares or merchandise by persons
24 engaged in bookbinding, tradebinding,
25 sample mounting, postpress services and

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 other print finishing services to a
3 location that's regularly maintained by
4 the other party to the transaction
5 outside the City would be excluded from
6 the receipts that are taxable under the
7 BPT.

8 And let me add, and it's not
9 stated here, that one of the concerns we
10 have is just in how this definition is
11 worded. We think it may be overly broad
12 to deal with the issues that are before
13 us and were presented by the previous
14 witnesses.

15 Perhaps it would help to
16 clarify a little bit. The definition of
17 "Taxable Receipts" in Section 19-2601 of
18 The Philadelphia Code provides that
19 receipts attributable to any sale of
20 goods, commodities, wares or merchandise
21 to a location regularly maintained by the
22 other party to the transaction outside
23 the limits of the City may be excluded
24 when calculating the BPT liability.
25 However, the receipts for services can

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 only be excluded if they are actually
3 performed outside the limits of the City.
4 Thus, services performed in Philadelphia
5 are taxable for the BPT even if there's a
6 resulting product that's delivered to a
7 party regularly located outside the City.

8 The businesses referred to in
9 this proposed amendment process improve
10 the value of the product, but do not
11 manufacture the product. Under the
12 current law, the receipts from all of
13 these services are taxable for the BPT
14 even if the finished product is delivered
15 outside the City. The proposed amendment
16 would permit these businesses to allocate
17 receipts based on delivered products in
18 and out of the City just as if they
19 manufactured the entire product.

20 Our records indicate that
21 approximately 15 businesses are
22 registered with us that have identified
23 themselves as being engaged in this type
24 of business activity. The total annual
25 tax liability for this group of

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 businesses was approximately \$100,000 in
3 tax year 2003. We estimate if this bill
4 had been in place in that year, the tax
5 liability of this group of businesses
6 would have been reduced to \$40,000 to
7 \$50,000, or a cost to the City of \$50,000
8 to \$60,000 in lost BPT revenue.

9 The issue here is not lost
10 value resulting from this particular
11 exclusion. The concern is that this
12 exclusion opens the door for additional
13 special legislative treatment for other
14 industries that can, and legitimately
15 have, made identical arguments for
16 exemption from the tax. The City is
17 moving aggressively to eliminate the
18 gross receipts portion of the tax for all
19 businesses. We need to stay the course
20 and not carve out exemptions on a
21 piecemeal basis.

22 This concludes my testimony.
23 I'd be happy to answer any questions.

24 COUNCIL PRESIDENT VERNA: Thank
25 you.

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 Are there any questions from
3 members of the Committee?

4 Councilman DiCicco.

5 COUNCILMAN DiCICCO: Thank you,
6 Madam President.

7 I'm a little bit confused and
8 maybe Mr. Weintraub -- did we not have
9 this exception or this exclusion in the
10 past? If you would ask him to come back.

11 COUNCIL PRESIDENT VERNA:
12 Please approach the witness table,
13 Mr. Weintraub.

14 MR. WEINTRAUB: In the
15 predecessor to the business privilege
16 tax, the mercantile license tax, this
17 exclusion was available. When the
18 business privilege tax was enacted, there
19 was a change in the definitions, which is
20 now what is causing the problem.

21 COMMISSIONER KAMMERDEINER: And
22 so for approximately 20 years now, this
23 definition has been in place, and it's
24 the definition that I quoted in my
25 testimony in terms of the way a service

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 is handled for taxation purposes.

3 COUNCILMAN DiCICCO: Okay. I
4 just wanted to be clear. I was a little
5 bit tired here from being here this
6 morning. I thought I was missing
7 something. Okay. Thank you. Thanks for
8 clearing that up.

9 COUNCIL PRESIDENT VERNA: Thank
10 you.

11 Any other questions or comments
12 from members of the Committee?

13 (No response.)

14 COUNCIL PRESIDENT VERNA:
15 Seeing none, thank you very much,
16 Commissioner.

17 COMMISSIONER KAMMERDEINER:
18 Thank you.

19 COUNCIL PRESIDENT VERNA: I
20 would ask Mr. McPherson to please call
21 our next witness.

22 MR. MCPHERSON: David Thomsen.

23 COUNCIL PRESIDENT VERNA: Good
24 afternoon, Mr. Thomsen. Please identify
25 yourself for the record.

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 MR. THOMSEN: Yes. My name is
3 David C. Thomsen, T-H-O-M-S-E-N. I live
4 at 2328 Parrish Street here in the City.
5 I've been in Philadelphia since 1965, and
6 I'm a retiree of Sunoco.

7 The reason I'm before you today
8 is to speak briefly, and I hope I can be
9 very brief, about my experiences with the
10 Revenue Department. I'm amazed to see
11 the Revenue Commissioner here. She'll
12 understand exactly what I'm talking
13 about.

14 In the late 1990s, I had had a
15 real estate business, but I got rid of
16 all the properties, but I didn't file
17 required business privilege taxes after I
18 had no business. Now, I'll read just a
19 little bit -- because I'm a little
20 nervous, I'll read a little bit of my
21 testimony, which makes it easier for us
22 all.

23 If the proper papers are not
24 filed to show that there's no longer any
25 business being conducted, the Revenue

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 Department will take a business to
3 municipal court, they will seek a fine of
4 \$5,000, and if there's not a response
5 within 30 days, they will impose a
6 judgment of \$5,000.

7 To get the judgment lifted,
8 what you have to do is to file the tax
9 forms, and in this case tax forms showing
10 all zeroes, no income, no tax to be paid,
11 and then the Law Department will reduce
12 the fine to \$500, plus court costs. And
13 eventually there's papers filed in
14 municipal court which will say that the
15 judgment has been lifted.

16 Now, when this started
17 happening to me, I did not believe the
18 Revenue Department was really serious
19 trying to collect \$5,000 from me for
20 years in which I had no business
21 whatever, but they did. And I am asking
22 City Council to look at the Section
23 19-509(4)(e) of The Philadelphia City
24 Code with a view to amending the
25 provisions there so that there won't be

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 punitive fines imposed for years in which
3 there is no business whatever.

4 I'm willing to answer any
5 questions from Councilmembers, but I hope
6 that you don't pursue all my personal
7 business affairs. I just hope to testify
8 before you and prevent other innocent
9 victims from falling into this kind of
10 trap. And I don't know of anybody else
11 that would try to impose a \$5,000 fine
12 for a year in which there were no taxes.
13 Certainly the Internal Revenue Service in
14 the state would not attempt to do that.

15 That's my testimony. Thank you
16 very much.

17 COUNCIL PRESIDENT VERNA: Thank
18 you.

19 Do we have any questions or
20 comments from members of the Committee?

21 (No response.)

22 COUNCIL PRESIDENT VERNA:
23 Mr. Thomsen, thank you very much, and I'm
24 sure that your problem had been addressed
25 long before you came here.

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 MR. THOMSEN: I hired an
3 attorney to get it addressed. It took
4 years and years, because he didn't do the
5 job. I finally settled it myself. It
6 cost me \$2,500 in fees to the City and
7 even more in legal fees. I really think
8 that the City needs to think through
9 their policy on this, and perhaps the
10 Administration can do it
11 administratively. But I brought it to
12 you because you have responsibility for
13 the Code and could change the Code.

14 COUNCIL PRESIDENT VERNA: Thank
15 you very much, sir.

16 Our next witness.

17 MR. McPHERSON: Joyce
18 Wilkerson.

19 COUNCIL PRESIDENT VERNA: Good
20 afternoon.

21 MS. WILKERSON: Good afternoon.
22 My name is Joyce Wilkerson. I'm Chief of
23 Staff to Mayor Street. With me today are
24 Nancy Kammerdeiner, Revenue Commissioner;
25 Dianne Reed, Budget Director; and Sean

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 McNeeley, Head of Policy for the City.
3 Thank you for this opportunity to present
4 testimony on FY07 tax measures.

5 The PICA statute requires the
6 City to provide a Five-Year Financial
7 Plan that balances in each year and
8 provides procedures to avoid future
9 fiscal emergencies. Although the
10 immediate goal of the Mayor and City
11 Council each year at this time is to
12 enact the detailed operating and capital
13 budgets for the upcoming year, the Mayor
14 is also required to propose a Five-Year
15 Financial Plan that meets with PICA's
16 approval.

17 The FY05 General end fund
18 balance was \$96.2 million, just one year
19 after we finished FY04 with the first
20 negative fund balance in 12 years. And
21 this year's fund balance is projected to
22 increase further to approximately \$168
23 million.

24 Although we are all happy at
25 this turnaround in our fund balance, we

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 must be mindful of balancing the proposed
3 Plan for a full five years. The
4 projected fund balance in proposed FY07
5 to 11 Five-Year Plan dips to \$4.3 million
6 before increasing in later years, mainly
7 due to the assumed repayment of the \$45
8 million loan made to PGW. I'd like to
9 summarize briefly some of the factors
10 driving the fluctuating fund balance
11 projections as well as related risks.

12 Employee benefit costs, mainly
13 pension obligations and health and
14 medical insurance, are projected to
15 continue to grow faster than tax
16 revenues, which provide 87 percent of
17 discretionary revenue. This imbalance
18 destabilizes the budget. Some relief is
19 in sight, as the City's minimum municipal
20 obligation for pensions is projected to
21 level off beginning in FY10. However, as
22 PICA has noted, more could be done to
23 address the unfunded liability of the
24 Pension Fund that is now currently only
25 approximately 59 percent funded.

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 There are no wage increases
3 assumed in the Plan after FY08.
4 Scheduled wage tax reductions accelerate
5 beginning in FY10, leading to tax revenue
6 growth below the assumed rate of
7 inflation.

8 As a consolidated city-county
9 in one of only 11 in the country, we
10 administer our own child welfare
11 programs. We are increasingly at risk
12 from proposed federal funding cuts to
13 programs such as TANF and Title IV-E.
14 These cuts increase the pressure on the
15 Commonwealth to change funding formulas
16 and increase local funding match
17 requirements in order to maintain
18 services.

19 In November, I appeared before
20 you to provide testimony on business
21 privilege tax legislation. At that time,
22 I testified the Administration
23 acknowledges the higher-than-expected
24 FY05 fund balance and tax collections
25 provide an opportunity for further tax

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 reductions beyond wage and business tax
3 reductions already planned or in law. I
4 also testified that we preferred to make
5 further reductions on a year-by-year
6 basis and in the context of the annual
7 budget and Five-Year Plan process. Bill
8 No. 060006, our proposal for accelerated
9 action on the BPT, would provide an
10 additional cut in the gross receipt
11 portion of the BPT for FY07, on top of
12 the reduction already scheduled in law.
13 This additional cut has an FY07 impact of
14 \$5 million. Assuming that we continue
15 the pace of gross receipts reductions
16 assumed in the last Five-Year Plans, and
17 set by ordinance for FY08 and '09, from
18 this new, lower FY07 rate, the impact of
19 Bill 060006 is 28.9 million in addition
20 to the tax relief over the life of the
21 Plan, for total BPT relief over the Plan
22 of \$58.7 million, all of which is assumed
23 in the Administration's revenue
24 estimates. This one-time tax cut
25 represents the amount that we believe we

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 can invest in additional tax reductions
3 at this time, while leaving intact
4 necessary fund balances in later years of
5 the Plan. We ask for your support on
6 this legislation.

7 Bill No. 060089 would set the
8 proposed schedule of gross receipts rate
9 tax reductions assumed through FY11 in
10 the proposed Five-Year Plan into law,
11 including the rate reduction proposed in
12 Bill No. 060006. As such, it would have
13 no net impact compared to the net
14 projections proposed in the Plan.
15 However, we do not support enacting new
16 multi-year tax rate reduction commitments
17 at this time, faced with numerous fiscal
18 uncertainties, PICA concerns over the
19 assumptions in the proposed Plan and
20 accelerating wage tax reductions through
21 2015.

22 Bill No. 060090 would implement
23 new annual reductions to the net income
24 portion of the BPT, while leaving the
25 gross receipts rate at levels currently

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 set in law. If this bill is enacted as a
3 stand-alone measure, while neither Bill
4 No. 060006 nor Bill 060089 were enacted,
5 this bill would actually result in at
6 least \$18 million more revenue over the
7 life of the proposed FY07 to '11 Plan
8 than is assumed, because the gross
9 receipts tax rate would be higher than is
10 assumed in the Administration's revenue
11 estimates.

12 If Bill No. 060006 and Bill No.
13 060090 are both enacted, or Bill No.
14 060089 and Bill No. 060090 are both
15 enacted, assuming that Council's intent
16 would be to have the lower tax rate
17 prevail, the combination of cuts to both
18 gross receipts and net income portions
19 would result in 10.9 million less revenue
20 over the life of the proposed Five-Year
21 Plan than is assumed in the
22 Administration's revenue estimates.
23 Again, we do not support enacting new
24 multi-year tax rate reduction commitments
25 at this time and so we do not support

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 passage of either of those bills.

3 Current law calls for sharply
4 accelerating wage tax relief even without
5 considering projected additional wage tax
6 relief through state tax reform.

7 Legislation passed in 2004 scheduled the
8 bulk of this additional relief beginning
9 in FY10 after the Five-Year Plan period
10 that was relevant at the time. This law
11 is now increasingly impacting our ability
12 to balance the Plan. The City's tax
13 reduction program that began in FY96 was
14 conceived and implemented as a moderate
15 and affordable annual investment in our
16 economy and workers. A ten percent
17 reduction in the resident and
18 non-resident wage tax rate took nine
19 years to achieve through this successful
20 program. The combination of the annual
21 wage tax rate reduction schedule after
22 2009 and the phase-in of the low-income
23 wage tax credit are projected to reduce
24 wage taxes by ten percent in only two
25 years. Taken together, between 2009 and

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 2015, these two laws are projected to
3 eliminate 30 percent of the City's wage
4 tax collections, the source of the
5 majority of the City's tax and
6 discretionary revenue, without any plan
7 to offset the loss of collections.

8 The combined revenue reduction
9 from wage tax relief currently scheduled
10 in law is projected to be over \$130
11 million in FY10 and '11 alone, increasing
12 to 670 million from FY10 through FY15.
13 And I've included in my testimony a
14 schedule so you can see the impact of
15 just those two tax measures by year out
16 into the future.

17 The PICA statute dictates that
18 we take action now in order to balance
19 the proposed FY07 to '11 Plan. This
20 action is entirely consistent with the
21 Mayor's warnings that the combined impact
22 of these laws would be unaffordable in
23 future years, as well as our preference
24 for year-by-year rather than multi-year
25 tax reform. Accordingly, Bill No. 060007

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 would repeal the low-income wage tax
3 credits scheduled to take effect in FY10.

4 Faced with the need to address
5 the fixed, accelerating and unaffordable
6 wage tax cuts, we have proposed retaining
7 the rate reduction that provide relief to
8 all workers in Philadelphia. If Bill No.
9 060007 is not passed, the
10 Administration's revenue estimates would
11 have to be reduced by \$46.8 million to
12 reflect assumed tax forgiveness and
13 refunds. This would be even harder to
14 accommodate in next year's Plan, which
15 will be debated in spring 2007, when the
16 combined impact of the low-income wage
17 tax credits would be a projected \$94
18 million in foregone revenue during the
19 Plan period.

20 This is a difficult proposal
21 that is not made lightly. Unfortunately,
22 these credits were not affordable at the
23 time they were passed, which is why they
24 were delayed for six years, and they are
25 not affordable now. Bear in mind that

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 the annual wage tax rate reductions and
3 state tax reform will benefit low-income
4 workers much more than other workers.

5 Bill No. 0600 --
6 Do you want to take testimony
7 on the school bills or just skip over
8 that?

9 COUNCIL PRESIDENT VERNA: No.
10 We're going to continue them, as I said
11 earlier in the day, until April the 4th
12 at 10 o'clock. That will be 04 and 08.

13 MS. WILKERSON: Then this
14 concludes my testimony.

15 COUNCIL PRESIDENT VERNA: Thank
16 you.

17 The Chair recognizes Councilman
18 Nutter.

19 COUNCILMAN NUTTER: Thank you,
20 Madam Chair.

21 Good afternoon, Ms. Wilkerson,
22 Commissioner Kammerdeiner and Ms. Reed.
23 Just a couple questions on the testimony.

24 First, on Bill 060006, you're
25 proposing to adjust the rates on the

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 gross receipts portion of the business
3 privilege tax in what is referred to as
4 tax years 2006, 2007 and 2008, and I know
5 often there is back and forth between
6 even some of the budget people and
7 certainly the tax office and others
8 about, of course, the difference between
9 our fiscal years and our tax years. Just
10 to touch on that, the tax year 2006 means
11 that when people pay their taxes in,
12 what, February or April of 2007, they use
13 the rate for tax year 2006, right?

14 COMMISSIONER KAMMERDEINER: Let
15 me take that one, Councilman. Nancy
16 Kammerdeiner, Revenue Commissioner.

17 The tax year is a calendar year
18 and so the rate would apply to business
19 activity in calendar year 2006. However,
20 the return that gets filed that deals
21 with that calendar year is not due until
22 April 15th of 2007, which is in Fiscal
23 Year 2007.

24 COUNCILMAN NUTTER: Right.

25 COMMISSIONER KAMMERDEINER: And

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 that's why we're dealing with this at
3 this point in terms of the fiscal '07
4 budget.

5 COUNCILMAN NUTTER: Right.

6 Which I guess makes it a little easier to
7 even make an adjustment in the rate for a
8 particular tax year, and especially in
9 this particular case since it's
10 anticipated to be lower, I guess no one
11 is really going to complain about that
12 when they --

13 COMMISSIONER KAMMERDEINER:

14 Generally speaking, they don't complain
15 when it comes down.

16 COUNCILMAN NUTTER: Yes. I'm
17 sure we can find someone who will be
18 upset.

19 Now, the discussion around this
20 particular bill, it's been mentioned on
21 more than one occasion that it is a
22 one-year tax cut, and, of course, this is
23 in contrast to, as the Chief of Staff
24 laid out on Page 2, I guess, of the
25 testimony, that the Administration is not

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 in favor of multi-year tax reductions.
3 Is that the current position?

4 MS. WILKERSON: Our position
5 is, we don't support multi-year tax
6 reductions.

7 COUNCILMAN NUTTER: Now, what
8 I'm trying to understand is, if that's
9 the position, this bill, 060006, has
10 three years of tax cuts in the bill,
11 which hopefully we can at least agree on
12 is multiple years.

13 MS. WILKERSON: That's correct.

14 COUNCILMAN NUTTER: Or it's a
15 multi-year tax cut.

16 MS. WILKERSON: No. The
17 Administration proposed accelerating the
18 rate of reduction in the gross receipt
19 tax, and it was against the backdrop of
20 previously enacted multi-year tax cuts.
21 In order to preserve what had been
22 previously legislated, although we didn't
23 support it, it was previously legislated,
24 we --

25 COUNCILMAN NUTTER: Well, you

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 may not have supported it, but the Mayor
3 signed it.

4 MS. WILKERSON: That's right.
5 It was previously legislated. We were
6 not interested in opening that whole
7 issue up again. We thought that because
8 of the fund balance, we were in a
9 position to do more. In FY07, we
10 proposed accelerating by \$5 million and
11 then adjusted the tax rates in the out
12 years for legislation previously enacted
13 as a way of previously enacted.

14 COUNCILMAN NUTTER: Right.

15 MS. WILKERSON: So that we
16 wouldn't have been in the position of
17 having to either repeal or minimize the
18 value of what had already been enacted.

19 COUNCILMAN NUTTER: Right.
20 Now, the current guaranteed schedule of
21 gross receipts tax cuts, if there's no
22 vote on any bill, whether it's a bill
23 offered by the Administration or a bill
24 offered by myself, in the spring budget
25 cycle, either April into May, May into

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 June, somewhere in that time frame -- I
3 think it may have been sometime in June
4 of 2003 -- the Mayor signed a business
5 privilege tax bill that had a schedule of
6 five years of guaranteed cuts; is that
7 correct?

8 MS. WILKERSON: I believe so.

9 COUNCILMAN NUTTER: And do we
10 at least agree that that was a multi-year
11 tax cut?

12 MS. WILKERSON: Yes.

13 COUNCILMAN NUTTER: This bill
14 has the last three years of the original
15 five years of multi-year tax cuts.

16 MS. WILKERSON: Against an
17 accelerated base.

18 COUNCILMAN NUTTER: I
19 understand that, but --

20 MS. WILKERSON: But it
21 reflects -- that's right, but, as I
22 testified earlier, the number is moved to
23 reflect the acceleration in FY07.

24 COUNCILMAN NUTTER: Right. Or,
25 I mean, you could have changed the tax

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 year 2006 rate from 1.75 just to 1.665.
3 I mean, that would be a one-year tax
4 credit.

5 MS. WILKERSON: Well, what we
6 tried to do, we tried to act in good
7 faith.

8 COUNCILMAN NUTTER: No. I
9 understand that.

10 MS. WILKERSON: And I think
11 that --

12 COUNCILMAN NUTTER: I want us
13 to clear this one up, once and for all.

14 MS. WILKERSON: What we tried
15 to do is act in good faith, and that
16 these have been raucous tax discussions,
17 and sometimes we win, sometimes we don't.
18 Sometimes we buy into compromises that we
19 would not have proposed.

20 But there was a multi-year tax
21 reduction set. The rate of tax reduction
22 was legislated. We looked at the budget,
23 thought that we could do more this year
24 and proposed doing more and, in good
25 faith, tried to preserve the rate of

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 reduction that had been previously
3 enacted.

4 COUNCILMAN NUTTER: Right.

5 MS. WILKERSON: That's why we
6 end up in what has turned out to be, I
7 think, the confusing position of
8 appearing to endorse multi-year -- being
9 all for multi-year tax. What we tried to
10 do was act in good faith to preserve the
11 rate of reductions that had been
12 previously enacted.

13 COUNCILMAN NUTTER: Well, I
14 understand that, and I appreciate that
15 good faith. I mean, I guess maybe what
16 I'm not understanding is, there would not
17 be any confusion but for the fact that it
18 was upon its announcement stated the
19 Administration is sending over a business
20 privilege tax bill, it is a one-year tax
21 cut, while the plain reading of the
22 bill -- I mean, there's no footnote,
23 there's no other explanation -- it's a
24 three-year schedule. It lays out what
25 the schedule is of the cuts and it's for

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 '06, '07, '08 and every year thereafter
3 for '08. So it is a three-year
4 guaranteed tax bill.

5 MS. WILKERSON: What I've said
6 is, we acted in good faith. What we
7 didn't want to do was be in the position
8 of appearing to repeal what had been
9 already enacted. There was a lot of back
10 and forth, a lot of trading that happens
11 when these numbers are nailed into
12 effect. We tried to make a good-faith
13 effort at preserving what had been
14 previously enacted, and in order to do
15 that, we were going to have to restate
16 the out year rates, and that was the
17 basis for our action.

18 I think that our underlying
19 concern remains, and I think we're faced
20 with that -- at some point, I'm sure
21 we'll talk about the Cohen tax reduction
22 where we do have multi-year tax
23 reductions, and we're now faced with
24 having to unwind what I've testified was
25 not affordable when we enacted. As we

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 try to craft five-year financial plans,
3 it becomes increasingly clear that it's
4 not affordable, and I think we have cast
5 before us a very clear example of what
6 happens when you get into these
7 multi-year reductions. I think we start
8 down the road of sending exactly the
9 wrong message, where we enact and then
10 repeal and enact and repeal. As
11 circumstances unfold, these various
12 initiatives are not affordable.

13 COUNCILMAN NUTTER: Well, I
14 mean, I think some of it may also just be
15 in the explanation. I mean, we made an
16 adjustment to the wage tax schedule, the
17 ultimate result of which was moving from
18 a fiscal year to a calendar year. I
19 mean, the City ultimately was the
20 beneficiary of doing that. It could have
21 been characterized by some in a different
22 fashion, but I think we got through that
23 one.

24 I know you made a good-faith
25 effort. I agree with the effort. I

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 mean, the issue seems to be one of
3 perception in how it's explained, is it a
4 one-year cut or is it a three-year cut,
5 and I think in the language that's been
6 used in recent times, can't we just agree
7 that this is a three-year tax cut bill
8 and you just accelerated the rate? Isn't
9 that the way to characterize this?

10 MS. WILKERSON: No. I think
11 that an effort -- I think that what the
12 Administration did was budget \$5 million
13 in FY05, a one-time additional reduction,
14 that plays out through the entire plan,
15 and in order to reflect that in the tax
16 rates, we were forced to restate it in
17 each one of three years. I think that we
18 have not retreated from what we've been
19 articulating as a concern about locking
20 in reduction of revenues, particularly in
21 times when we have a lot of things going
22 on in the budget. As Councilmembers
23 know, we're faced with --

24 COUNCILMAN NUTTER: We got two
25 over here.

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 MS. WILKERSON: I'm speaking to
3 multitudes now.

4 COUNCILMAN NUTTER: This side
5 of the room is winning.

6 MS. WILKERSON: I don't have to
7 worry about turning my back on them.

8 I'll talk to the Council
9 President.

10 COUNCILMAN NUTTER: As it may
11 drive you crazy, you're kind of stuck
12 with me over here at the moment. That's
13 just the way it is.

14 MS. WILKERSON: We're faced
15 with erosion of our federal and state
16 support that is going to make it
17 difficult. Just last week we were at
18 arbitration testifying in the Act 111.
19 There are a lot of risks and
20 contingencies that I think make it
21 imprudent to begin legislating locking in
22 tax reductions in out years. I think we
23 do our best to plan for that. I think
24 it's imprudent to begin legislating, and
25 I know the Mayor does, to begin

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 legislating those.

3 COUNCILMAN NUTTER: Why don't
4 we say this on that, that the
5 Administration's good-faith proposal to
6 put additional dollars toward business
7 privilege tax reduction supports a
8 continuation of a three-year schedule of
9 tax cuts. Is that accurate?

10 MS. WILKERSON: It adopts the
11 previously enacted schedule of
12 reductions.

13 COUNCILMAN NUTTER: Okay. And
14 should this bill pass, there would be a
15 new rate for 2006. We would not have to
16 vote on further reductions in the
17 business privilege tax in '07 or in '08
18 as a result of this.

19 MS. WILKERSON: We adopted what
20 was previously legislated.

21 COUNCILMAN NUTTER: So you
22 support the continuation of the
23 three-year tax cut.

24 Now, on the other hand, you do
25 have a schedule of proposed cuts through

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 for the whole Five-Year Plan.

3 MS. WILKERSON: We have done
4 what has been done since 1996 in this
5 City. We have projected what appear to
6 be at this point reasonable tax
7 reductions in out years. What we do is
8 take a look at that on a year-by-year
9 basis. And if you'll recall back in the
10 '90s, I guess, sometimes the cuts were
11 not as aggressive, sometimes they were
12 more aggressive by the time they were
13 actually legislated. In just this year,
14 we in fact have proposed a more
15 aggressive cut than was previously
16 thought to be feasible.

17 So we are committed to tax
18 reductions. We're committed to business
19 tax reductions. We try to work with them
20 in our Five-Year Plan, but make decisions
21 about the rate of reduction on a
22 year-by-year basis.

23 COUNCILMAN NUTTER: But having
24 said that, either your memory or
25 Commissioner Kammerdeiner's memory, of

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 course, could be better. Do you recall
3 during any of those years, either the
4 '90s or certainly in the last five or six
5 years, that other than various proposals
6 from members here or even now in this
7 particular situation the Administration
8 is proposing its own accelerated, for the
9 most part, the rates have been the same
10 from the Five-Year Plan that ultimately
11 get enacted and I think the only big
12 change has been reductions? Has there
13 been a time that the rate went up?

14 COMMISSIONER KAMMERDEINER: I
15 can't remember which year it was, but I
16 don't think it was the rate went up, but
17 the amount of decrease was not as great
18 as was proposed in the prior year's Plan
19 and so there had been variations, as the
20 Chief of Staff indicated a few moments
21 ago, that the amount of decline from year
22 to year, though there was a constant
23 decline, was not always at the same rate
24 as had been proposed in the prior year's
25 Five-Year Plan.

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 COUNCILMAN NUTTER: Do you
3 remember what year that was?

4 COMMISSIONER KAMMERDEINER: No,
5 I don't remember which year, although
6 Budget Director has some things.

7 This is what was enacted. We'd
8 have to go back and look at each
9 Five-Year Plan and compare a Five-Year
10 Plan to what was actually enacted in the
11 ensuing year.

12 It was early in the process of
13 the reductions, if my memory serves me
14 correctly, but I can't tell you which
15 year.

16 COUNCILMAN NUTTER: So you
17 think somewhere in the '90s?

18 COMMISSIONER KAMMERDEINER:
19 Yes.

20 COUNCILMAN NUTTER: Now, lastly
21 on this issue of, quote/unquote, locking
22 in, what is the significance, I guess, if
23 any, to approving the Five-Year Plan with
24 a schedule? Of what value is that if
25 it's not some preview as to where we're

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 trying to go? And then, of course, we do
3 a budget every year and as we need to
4 make adjustments, we can do that. But, I
5 mean, what's the point if we're not going
6 to try to do our best to follow some
7 schedule?

8 MS. WILKERSON: Well, I think
9 it is a forecast. We forecast revenues.
10 We try to make projections about what's
11 going to happen with expenses, but from
12 year to -- and I think it's been a good
13 thing for the City. I think that all the
14 rating agencies will tell you that it
15 gives us a real opportunity to avoid huge
16 problems, because we're always looking a
17 little bit down the road, and most other
18 jurisdictions don't do that.

19 But there are a lot of changes
20 that happen from year to year. I know
21 that we've seen enormous changes in our
22 pension obligation. We've seen big
23 changes and are currently witnessing big
24 changes in the level of support for human
25 service programs. And so their

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 projections, things really don't begin to
3 crystallize until you get much closer. I
4 think that's why it's prudent to plan on
5 a future of tax reductions, but to hold
6 off until you begin to have a clear sense
7 of what's going to happen, what's
8 actually going to happen with revenues.

9 I think right now we're
10 particularly vulnerable, because we are
11 as dependent on the real estate transfer
12 tax as we are -- we've got a couple of
13 taxes that are performing in ways that
14 are completely unprecedented now that
15 have the Plan carrying more risk than I
16 think it's probably carried in the recent
17 past. And I think that we need to be
18 cautious about over -- we just need to be
19 really prudent about the investments we
20 make. We have to be prudent about the
21 tax reductions we pursue, because we are
22 working off of -- we're working at a
23 time -- when I think back about the years
24 I've been here, it's probably more in
25 flux in a lot of ways than it's been for

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 a while.

3 COUNCILMAN NUTTER: Well, at
4 the same time, if the rates are
5 reasonable and you at least have laid out
6 a schedule, not only do you, of course,
7 have to be concerned about the revenue
8 side, but it does impose some amount of
9 fiscal discipline on the spending side --

10 MS. WILKERSON: Sure.

11 COUNCILMAN NUTTER: -- on the
12 expense side, because you know at least
13 what you're anticipating. I guess where
14 we might have a slight difference of
15 opinion is, you've mentioned on a couple
16 of occasions this concept of locking in
17 rates. I mean, I know there was, I don't
18 know, some bill at the federal level a
19 bunch of years ago that required that
20 once they locked in certain things, then
21 certain cuts automatically happen and
22 they were virtually irreversible. I
23 mean, we don't find ourselves in that
24 situation. We can change our taxes and
25 their rates at least on an annual basis

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 in any way, shape or form we want to.

3 MS. WILKERSON: Well, I think
4 it's going to be interesting to see what
5 happens with the repeal of the wage tax
6 credit. I think that's where we'll have
7 the opportunity to see whether or not
8 there's the resolve to undo things that
9 become unaffordable.

10 I know that the previous panel
11 testified that --

12 COUNCILMAN NUTTER: Why was it
13 proposed?

14 MS. WILKERSON: It was proposed
15 because it is unaffordable in the out
16 years. The previous panel I believe
17 testified, Oh, you've got a fund balance,
18 there's no need to undo the Cohen bill.
19 The fund balance, in large measure,
20 protects against the possibility that PGW
21 does not repay the \$45 million. I think
22 if you look in the year after that, it
23 becomes even more apparent as the level
24 of the wage tax credit is -- the funds
25 diverted to that begin to really take

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 off. It becomes clear how unaffordable
3 that is, and that if it's not going to be
4 significant, you have to wonder why you
5 start down that road at all.

6 COUNCILMAN NUTTER: Let me ask
7 this question. I know the Administration
8 did not support it, but to have any
9 amount of insight into the inner workings
10 of the operation, was there any
11 discussion about either reducing the
12 rates and simultaneously even stretching
13 out the schedule as opposed to you
14 reached the conclusion and the only thing
15 to do is, well, I guess we just need to
16 end it?

17 MS. WILKERSON: I think that
18 the Administration's position has been
19 clear since, I guess it was, 2004 when we
20 attempted to shift from wage tax
21 reductions to business tax reductions,
22 although nobody seems to remember that.
23 We think that there is more benefit as a
24 result of business tax --

25 COUNCILMAN NUTTER: I think

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 that was 2002.

3 MS. WILKERSON: 2002?

4 COUNCILMAN NUTTER: Yes. Time
5 flies when we're all having fun here.

6 COMMISSIONER KAMMERDEINER:
7 We're having so much fun.

8 COUNCILMAN NUTTER: Which, by
9 the way, is what started all this in the
10 first place.

11 MS. WILKERSON: I know.

12 COUNCILMAN NUTTER: It's a bit
13 of a self-inflicted wound.

14 MS. WILKERSON: It's ironic now
15 that we're the enemies of business tax
16 reduction. I never will understand how
17 all that happened.

18 And so have preferred business
19 tax reductions. I also believe that, in
20 measure, as a result of the economic
21 development summit, I think it put a
22 finer point on the need not just to
23 commit and invest in business tax
24 reductions, but to also focus on other
25 components of our economic development,

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 and that's why we have proposed an
3 additional borrowing to support the arts
4 and make additional resources available
5 for the neighborhood commercial
6 corridors, that we can't focus just on
7 tax reductions, we've got to be broader
8 than that. We do think that business tax
9 reductions have a clearer benefit than
10 the wage tax reductions that would have
11 been affordable.

12 COUNCILMAN NUTTER: Okay. But
13 I don't necessarily know that you
14 answered.

15 MS. WILKERSON: You had asked
16 did we look at a lesser amount of tax.
17 We don't have faith in that tax credit
18 as --

19 COUNCILMAN NUTTER: At all?

20 MS. WILKERSON: Not at the
21 levels that we were able to make it, and
22 so chose instead to invest in more for
23 business tax reductions and to make
24 investments through a borrowing.

25 COUNCILMAN NUTTER: But how do

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 you address the whole issue of -- I mean,
3 that particular bill does not go into
4 effect until 2010.

5 MS. WILKERSON: That's right.
6 The Administration --

7 COUNCILMAN NUTTER: Why now?

8 MS. WILKERSON: When we sit
9 down and talk with PICA, 2010 seems to --

10 COUNCILMAN NUTTER: That's very
11 soon.

12 MS. WILKERSON: 2010 is not
13 just a date in the offing. Particularly
14 when you have numbers as large as the
15 numbers proposed with the Cohen tax cut,
16 if you don't want to have things
17 cataclysmic happening in the delivery of
18 services, you have to begin planning
19 sooner rather than later; that if we're
20 going to stay on course to absorb the
21 kinds of expenses that Cohen triggers,
22 we're going to have to start making
23 changes in how we do business well before
24 we get to 2010. Just otherwise we would
25 be -- it would be like when we had the

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 \$60 million problem a couple years ago.
3 If it's not going to be cataclysmic, you
4 have to take a longer run at it.

5 COUNCILMAN NUTTER: What I'm
6 taking out of this is -- and the couple
7 panels ago, there was mystery and
8 intrigue and wonderment by those
9 panelists as to why this is being
10 proposed. I mean, the answer is because
11 of potential cuts in services?

12 MS. WILKERSON: The numbers get
13 to be so large, at this point, we don't
14 see how you get to those kinds of
15 savings. Nobody is projecting revenues
16 sufficient to cover these kinds of
17 increases. When I look at what could
18 happen with some of the labor
19 negotiations, I don't know how you get to
20 absorbing one-year cuts 30 million, 47
21 million. I don't know how you get to
22 those numbers without impacting services.
23 You can't wait until FY12. You can't
24 wait until FY11. You've got to begin
25 changing how you do business well before

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 that. And I think service has become an
3 issue.

4 The other thing that I want to
5 continue to emphasize is, we're headed in
6 a direction with our state-derived
7 revenue that leads me to believe there's
8 going to be less, not more. They've
9 changed to the whole Medicaid realignment
10 that we first saw last year. I think
11 it's going to continue. You see the
12 federal government beginning to pull back
13 on things like TANF. All of those things
14 lead me to believe that we're going to
15 have less, not more, and that we are
16 going to see some changes in services.

17 We're still working through the
18 potential impact of the state budget, but
19 I'm not seeing more on the horizon.

20 COUNCILMAN NUTTER: Last
21 question. Bill 060089 mirrors the
22 proposed rates in the Five-Year Plan. Is
23 it my understanding from reading your
24 testimony that because of that, there
25 would be no financial impact to the

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 Five-Year Plan?

3 MS. WILKERSON: Those numbers
4 would be anticipated already in the Plan.
5 I think that depending on what happens
6 with the Cohen bill, if that's not
7 repealed, all bets are off, depending
8 on -- but those numbers currently would
9 be in there.

10 COUNCILMAN NUTTER: Just as a
11 last follow-up, since they are exactly
12 what's in the Five-Year Plan and you're
13 asking us -- at some point, you're going
14 to ask us to approve a Five-Year Plan
15 with those same numbers in it. Why would
16 you be --

17 MS. WILKERSON: I think Council
18 is taking the position it doesn't approve
19 the Plan?

20 COUNCILMAN NUTTER: I'm sorry?

21 MS. WILKERSON: Council doesn't
22 approve the Plan any longer?

23 COUNCILMAN NUTTER: Is that a
24 question?

25 MS. WILKERSON: No. I thought

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 that was the position.

3 COUNCILMAN NUTTER: No. I
4 assume that we're going to approve a
5 Five-Year Plan at some point.

6 MS. WILKERSON: Okay.

7 COUNCILMAN NUTTER: And it will
8 have these --

9 MS. WILKERSON: Our position at
10 that point would be if you were to have
11 the repeal of Cohen, if the other numbers
12 in the Plan don't change, our objection
13 to that would be largely because it
14 legislates on a multi-year basis, and we
15 don't believe that's prudent.

16 COUNCILMAN RIZZO: Point of
17 information.

18 MS. WILKERSON: New multi-year
19 reductions.

20 COUNCILMAN NUTTER: But you
21 already signed a multi-year reduction.
22 You signed two of them.

23 MS. WILKERSON: I think
24 that's -- that's our position.

25 COUNCILMAN NUTTER: Okay.

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 COUNCILMAN RIZZO: Point of
3 information.

4 COUNCIL PRESIDENT VERNA:
5 Councilman Nutter, excuse me. I believe
6 Councilman Rizzo has a question.

7 COUNCILMAN RIZZO: I just have
8 a quick question.

9 Chief of Staff, you just said
10 about Council not approving. What were
11 you referring to? What Plan?

12 MS. WILKERSON: The Five-Year
13 Plan from -- I'll retract that.

14 COUNCILMAN RIZZO: You'll
15 retract that?

16 MS. WILKERSON: Yes.

17 COUNCILMAN RIZZO: Thank you.

18 COUNCIL PRESIDENT VERNA:
19 Councilman Nutter.

20 COUNCILMAN NUTTER: I think I'm
21 good.

22 I mean, the position is, even
23 if the rates are the same, the
24 Administration does not want to support
25 further extension of multi-year tax cuts,

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 notwithstanding the current situation
3 involving --

4 MS. WILKERSON: That's correct.

5 COUNCILMAN NUTTER: --

6 multi-year bills that have already been
7 signed in the past. Okay.

8 Thank you, Madam Chair.

9 COUNCIL PRESIDENT VERNA: The
10 Chair recognizes Councilman Ramos.

11 COUNCILMAN RAMOS: Thank you,
12 Madam President.

13 Ms. Wilkerson, many of us --
14 and as you well know, because you've been
15 around here for such a long time doing
16 this hard work, I get in my office, I've
17 gotten over 2,000 people that have signed
18 into my office alone, and I've been in
19 office only a little bit over the two
20 years. Around 50 percent of the people
21 that come are very low-income families
22 that are in need of a variety of
23 immediate pressing things in their lives,
24 and this wage tax reduction means a lot
25 to low-income and poor working-class

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 families.

3 In the numbers that you -- and
4 I understand why you want to repeal. I'm
5 note sure I agree with it, but you in
6 your statement on Page 3, the number in
7 FY10 in your graph says that there will
8 be a total impact of wage tax relief of
9 48 million some dollars. That total is a
10 combination of the wage tax reduction
11 program that the City of Philadelphia has
12 been involved in for quite a few years
13 now. So the number of the Cohen bill,
14 correct me if I'm wrong, is not actually
15 that 48 million number, but the \$15
16 million number. The impact that it will
17 actually have will be an impact of 15
18 million additional dollars in our wage
19 tax reduction. Am I correct?

20 MS. WILKERSON: That's correct.

21 COUNCILMAN RAMOS: So the
22 impact that this would have starting in
23 FY10 will be an impact of \$15 million,
24 not \$48.9 million --

25 MS. WILKERSON: Correct.

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 COUNCILMAN RAMOS: -- that's
3 correct?

4 And then we see that this
5 continues to balloon in the out years.
6 Is this Administration saying that we
7 cannot take in this additional \$15
8 million reduction by FY10?

9 MS. WILKERSON: We might be
10 able to afford it in FY10, but we would
11 have to jettison other things. That 15
12 million standing alone, yeah, maybe we
13 could do that, but there are other things
14 that -- you'd have to drop out \$15
15 million of other spending or else show
16 additional revenue equal to that. And
17 that alone, it's our position that alone
18 is not sufficiently significant. But
19 when you begin to couple it with the
20 other changes, an additional 31 million
21 in FY11, it begins to build in such a way
22 that we can't afford it.

23 COUNCILMAN RAMOS: I understand
24 your point of view, but you very well
25 also acknowledge the surplus that we have

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 at hand, that the surplus looks like it's
3 going to grow. Hypothetically, if it
4 continues to grow and we still are able
5 to do, let's say, most of the things that
6 the Administration has proposed that I
7 thought were very well thought out and a
8 lot of it I'm in agreement with, if this
9 economic trend continues and all
10 indications are thus far -- I'm not a
11 financial expert by any stretch of the
12 imagination or an economist, but it looks
13 like our economy is going to continue to
14 grow. Isn't there a way that we can work
15 to make this wage tax reduction for the
16 working poor possible?

17 MS. WILKERSON: I think, first
18 of all, the fund balance doesn't continue
19 to grow. It drops to only \$4 million in
20 FY08 and then begins to increase. We
21 don't project that it will ever reach
22 during this Administration where it is
23 presently. So it's not all rosy. And I
24 think that if the decision is made, if
25 this is a priority, then we'll have to

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 talk about getting rid of other things.
3 It may be getting rid of projected
4 business tax reductions. It may be
5 getting rid of proposed spending. It may
6 be getting rid of the bond issue. But
7 you will have to get rid of something,
8 because the next several years, a \$4
9 million fund balance is extraordinarily
10 low, and when you take into consideration
11 that we don't have all the potential
12 increases in our labor costs, when you
13 look at what we aren't doing for the
14 pension fund, you begin to see how close
15 to the edge we really are and that the
16 conversation is going to have to change
17 from constantly giving back revenues.

18 COUNCILMAN RAMOS: I'm very
19 cognizant of that last fact, and I'm glad
20 that we coincide with that thinking ahead
21 in our obligations. I think that there
22 should be a way that we can make this
23 happen so that low-income wage earners
24 will have some relief so that they can
25 make ends meet, because that seems to be

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 the biggest problem with people that are
3 at the bottom end of the wage brackets.
4 I believe that we have an obligation as
5 we go and reduce business privilege tax,
6 which was a question that I posed to
7 Mr. Mandel -- and I don't know if I got
8 it in with the Chamber -- that as we
9 continue to do business of tax reduction,
10 which I think is a very good thing as
11 long as we use some austerity and realize
12 that we have a broader population to
13 serve in this City as well, that we
14 should be able to, in the same light as
15 we're doing those type of tax reduction,
16 that we treat the other bottom end of the
17 economic ladder the same way, that if
18 they need some relief, that we'll be able
19 to give them some relief within some
20 limitations.

21 But I would like to continue to
22 have this discussion with the
23 Administration to see if there's a way
24 that we can come to an agreement on this.

25 MS. WILKERSON: I think that

1 2/27/06 - WHOLE - BILL 060006, ETC.
2 there are things. Part of what the
3 gaming revenues are to support in
4 Philadelphia anyway is reduction, further
5 reduction, in the wage tax. We've all
6 had conversations about doing things to
7 protect people with lower income and
8 fixed income when it comes to the
9 property tax. I think when we engage in
10 that conversation, we put on the table
11 potential new revenues it's going to cost
12 us, because we're going to have to do
13 carve-outs to protect low-income people
14 and to protect senior citizens on fixed
15 incomes. But that does offer another
16 opportunity for us to begin doing the
17 kinds of things that you're talking about
18 or that folk want to see have happen.

19 COUNCILMAN RAMOS: Okay. Thank
20 you.

21 COUNCIL PRESIDENT VERNA: Thank
22 you.

23 Are there any other questions
24 from members of the Committee?

25 (No response.)

1 2/27/06 - WHOLE - BILL 060006, ETC.

2 COUNCIL PRESIDENT VERNA:

3 Seeing none, I thank you. Thank you for
4 your patience.

5 MS. WILKERSON: Thank you.

6 COUNCIL PRESIDENT VERNA: Do we
7 have anyone else to testify on the bills
8 before us?

9 (No response.)

10 COUNCIL PRESIDENT VERNA:

11 Seeing no one, the Committee will stand
12 in recess until tomorrow morning at 10:00
13 a.m. Thank you.

14 (Committee of the Whole
15 adjourned at 3:00 p.m.)

16 - - -

17

18

19

20

21

22

23

24

25

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

CERTIFICATE

I HEREBY CERTIFY that the
proceedings, evidence and objections are
contained fully and accurately in the
stenographic notes taken by me upon the
foregoing matter on February 27, 2006, and
that this is a true and correct transcript of
same.

MICHELE L. MURPHY
RPR-Notary Public

(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.)