

Adventures in Tax Land: A Post-Mortem on Tax Reform



Paul R. Levy
Center City District
www.centercityphila.org

 CENTER CITY DISTRICT

Thriving mixed use downtown:

40% jobs in office sector; 20% eds & meds; 11.6% leisure & hospitality



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Filled with young professionals & empty nesters
46% of residents in the core, ages 20-34
75% in core have a BA degree; 50% in extended



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Demographics are a powerful lure
to both retailers & employers



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Animated retail streets



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World-renown cultural institutions



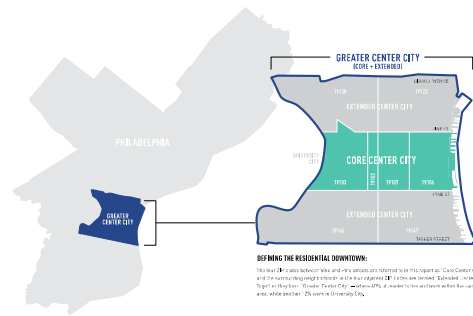
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A growing number of families with children



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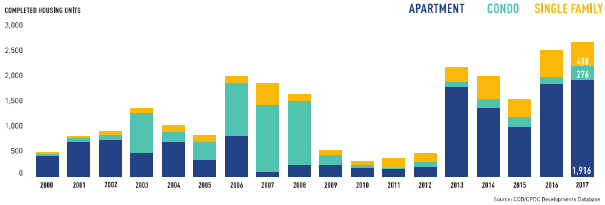
Greater Center City fastest growing section of city
Population up 21% since 2000 = 190,000
25% who moved to PHL between 2000-2017 moved downtown



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Since 2000 added 23,178 new units of housing

FIGURE 1: GREATER CENTER CITY HOUSING COMPLETIONS, 2000-2017



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\$6.1 billion in new development just completed or concluding New Comcast & Aramark buildings 1,923 hotel rooms, 5,150 housing units



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Multiple projects on Market East



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University City campuses dramatically expanding



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Penn making major investments in innovation



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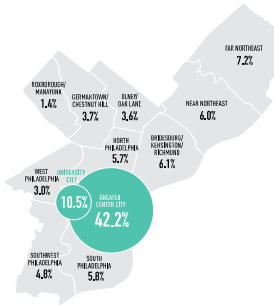
Drexel/Brandywine Innovation District



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Center City (42.2%) + University City (10.5%) 8% of land-area = 53% of all jobs in Philadelphia

PHILADELPHIA EMPLOYMENT BY AREA



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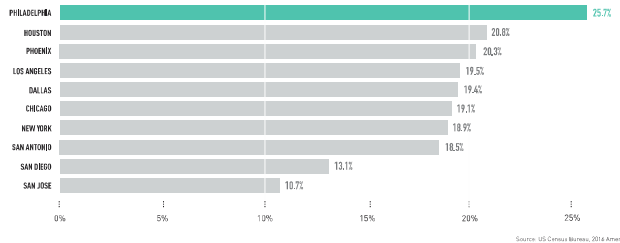
Wealth of good news in Center City & University City Pull the camera back.....



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Bad news: Highest poverty rate of 10 largest cities: 25.7%

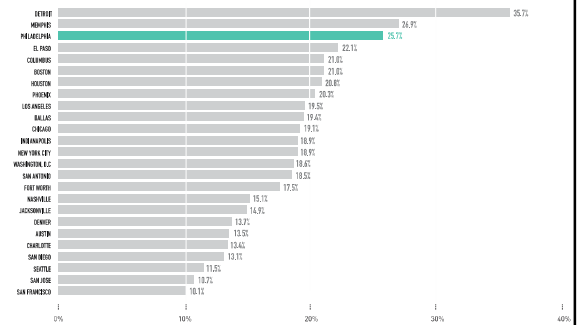
POVERTY RATES AMONG THE TOP 10 LARGEST US CITIES



CENTER CITY DISTRICT

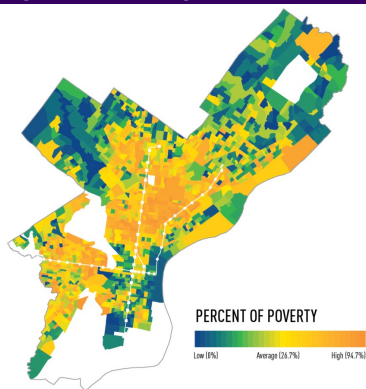
3rd highest poverty rate of 25 largest cities Behind only Detroit & Memphis

POVERTY RATES AMONG THE TOP 25 LARGEST US CITIES



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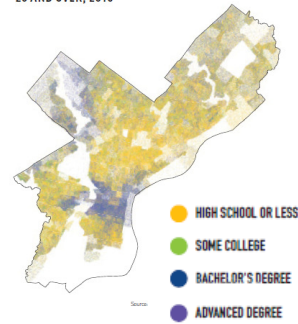
Creates huge income disparities in the city: **poverty**



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Disparities in education levels

EDUCATIONAL ATTAINMENT, POPULATION 25 AND OVER, 2016



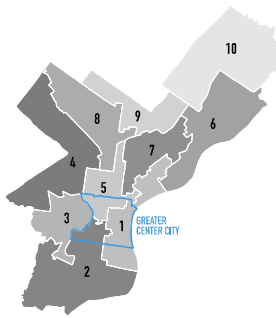
61% OF GREATER CENTER CITY RESIDENTS HAVE A BACHELOR'S DEGREE OR HIGHER, A POWERFUL ATTRACTOR FOR BUSINESSES SEEKING TALENT, BUT A MARKED CONTRAST WITH SURROUNDING NEIGHBORHOODS

26% Citywide with BA

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Shapes the politics of the city The needs in our neighborhoods are great

FIGURE 3: POVERTY BY COUNCIL DISTRICT



COUNCIL DISTRICT	POVERTY RATE	DEEP POVERTY RATE
1st District	22%	10%
Outside Greater Center City	25%	11%
Inside Greater Center City	16%	8%
2nd District	23%	9%
Outside Greater Center City	27%	10%
Inside Greater Center City	13%	7%
3rd District	36%	21%
4th District	23%	13%
5th District	34%	18%
Outside Greater Center City	44%	22%
Inside Greater Center City	17%	9%
6th District	18%	8%
7th District	43%	19%
8th District	29%	12%
9th District	22%	9%
10th District	12%	5%

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Challenges in these Districts: Deteriorated housing, Playgrounds in need of substantial reinvestment



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Opioid addiction & encampments in neighborhoods Funding for schools



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These issues dominate discussion in City Hall



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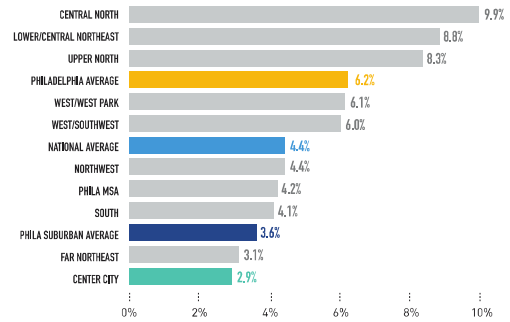
In the search for funding they look out the windows
& see luxury condos in Center City
With 10 year abatements



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Unemployment rate in North Central Philadelphia 3.4 times higher than in Center City

PHILADELPHIA NEIGHBORHOOD UNEMPLOYMENT RATES, 2017

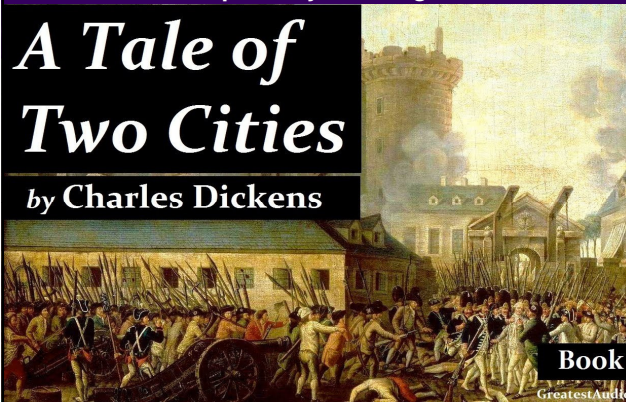


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Journalists repeatedly invoking Charles Dickens

A Tale of Two Cities

by Charles Dickens



Book

GreatestAudio

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Federal government cutting back on social safety net
& funds for affordable housing & Democratic left calling
for much higher federal tax rates to fund redistribution



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Republican right is in control nationally Across the country, this has led to city legislation that seeks to carry out redistribution at the local level

An Analysis of Tax Abatements in Philadelphia

Office of the Controller, City of Philadelphia
 April 20, 2015

City of Philadelphia

The Council
 1500 Locust Street
 Philadelphia, PA 19102

DRL NO. 18021

Introduced April 12, 2015

Commitment Signed, Council President Clark, Commitmentees
 Goutfere Lantieri, (Council), (Council), Sen. Reynolds Brown and Jones

Referred to the
 Committee on Finance

AN ORDINANCE

Providing for a program to the City open the requirements of certain real estate, and
 allowing Council to approve various other laws, such as present to the Department of
 Planning and Development, or Director of Finance and Community Development, or
 other appropriate department or agency, to make a determination of whether a project
 including any use or use, and to providing incentives to Philadelphia real estate
 to become a business, all under certain conditions.

THE COUNCIL OF THE CITY OF PHILADELPHIA DO HEREBY ORDAIN:

SECTION 1. Title 19 of the Philadelphia Code is hereby amended to read as follows:

TITLE 19 FINANCE, TAXES AND COLLECTIONS.

• • •

CHAPTER 19-0400 Construction Impact Tax.


§ 19-0401. Impacts of Tax.

(1) There is hereby imposed a tax on the privilege of constructing any structure
 for human occupancy, including any residential, commercial or industrial occupancy,
 including any improvement or other structure, the which is building permit is required
 pursuant to § 19-0402, as follows:


(a) For the purpose of this Chapter 19-0400, "improvement" shall mean
 any repairs, reconstruction, or reconstruction, including addition and alterations, which

City of Philadelphia

1-1

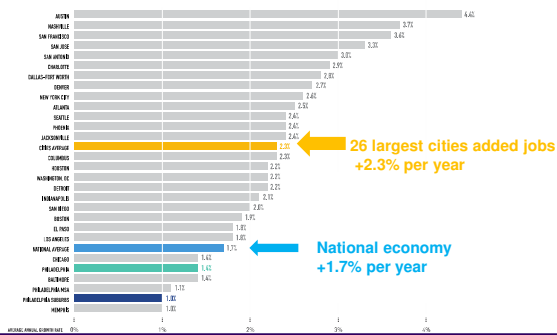
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As a start: we rejected the analogy of *two cities*
Because it leads to misguided cures



Nationally, since 2009 we've been living through an urban led economic recovery

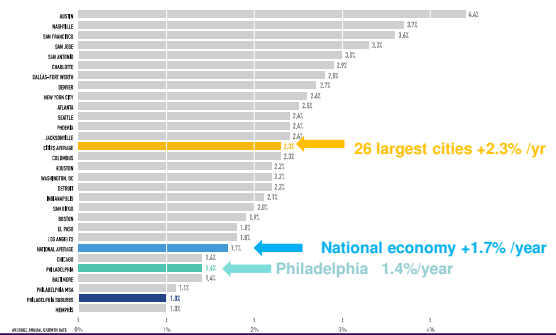
PRIVATE WAGE & SALARY JOBS AVERAGE ANNUAL CHANGE, 2009-2017



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Since 2009, Philadelphia has been growing at only 1.4%/ year

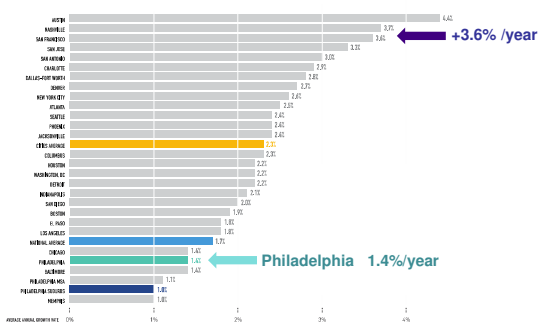
PRIVATE WAGE & SALARY JOBS AVERAGE ANNUAL CHANGE, 2009-2017



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What San Francisco can support with 3.6% growth rate is very different from what PHL's 1.4% rate can support. One size does not fit all: Create market sensitive alternatives

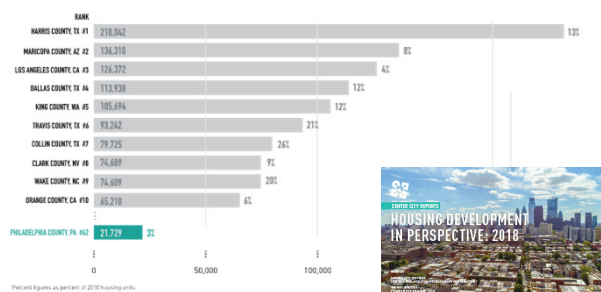
PRIVATE WAGE & SALARY JOBS AVERAGE ANNUAL CHANGE, 2009-2017



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So too, what we call a housing boom Pales in comparison with other cities 62nd in housing production among 100 largest counties

FIGURE 16: TOP COUNTIES BY NUMBER OF UNITS PERMITTED, 2010 TO 2017



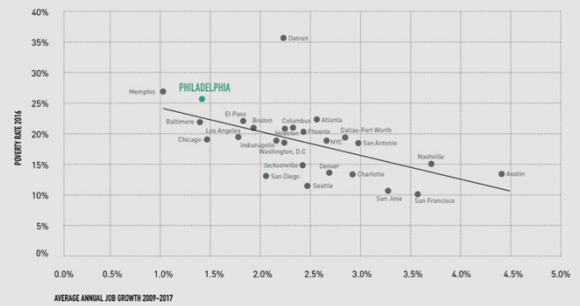
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**We need to reframe the question:
Why is Philadelphia not growing more quickly?
What can we do about that?**



**Poverty is not a biblical plague,
it's by-product of slow growth**

PRIVATE WAGE & SALARY JOBS, AVERAGE ANNUAL CHANGE 2009-2017 VS. 2016 POVERTY RATE



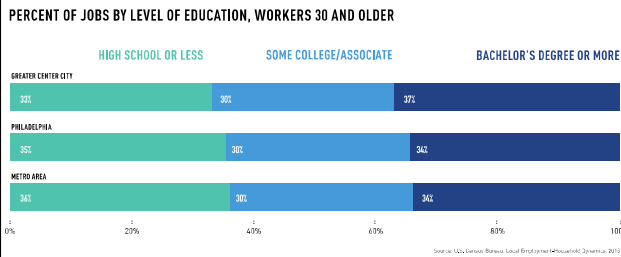
**Start here:
Despite the focus on condos downtown**



**90% of developed land downtown occupied by
offices, hospitals, hotels, colleges & retail shops**

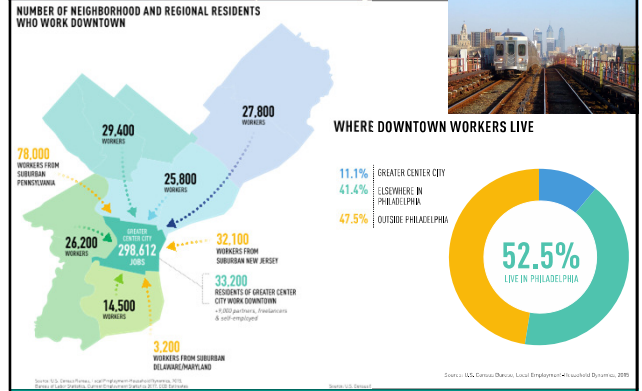


**63% jobs in these buildings require less than college degree
33% require only a high school diploma
SEPTA makes them accessible to neighborhood residents**



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**25% of residents from every city neighborhood
Work downtown: 52.5 % of jobs held by city residents**



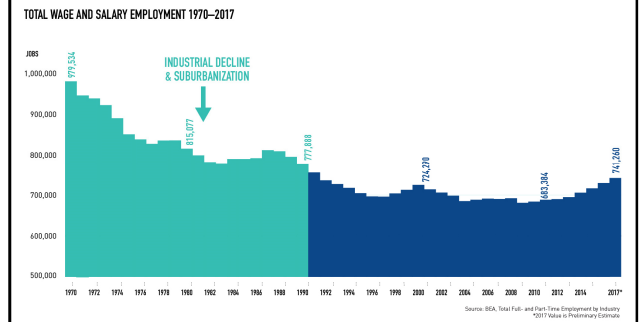
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**We need more growth downtown & citywide
to offset industrial decline
Not a tale of two cities, but of one city with insufficient jobs**



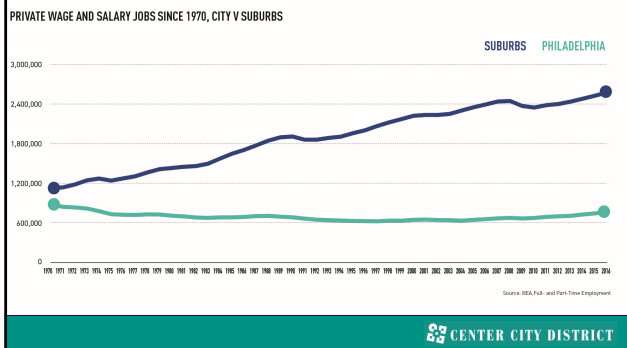
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**Philadelphia is slow growth city that still has
24% fewer jobs than in 1970
Barely back to 1990 level**

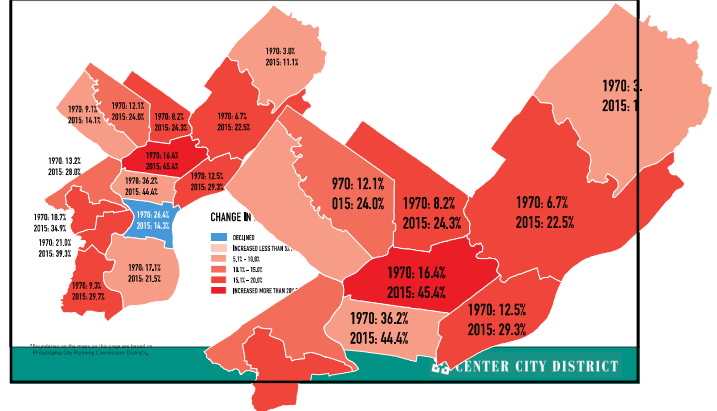


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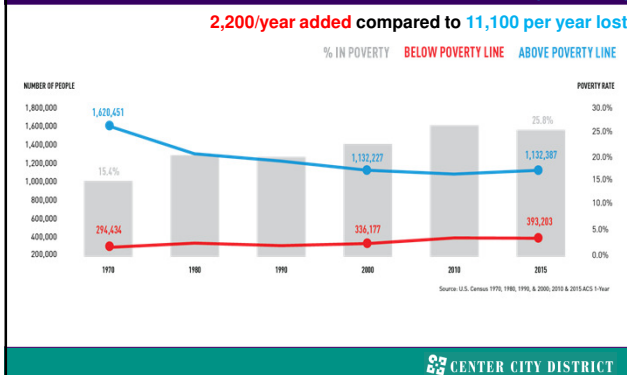
As Philadelphia lost 1/4 of its jobs from 1970, Surrounding suburbs saw jobs increase by 110%



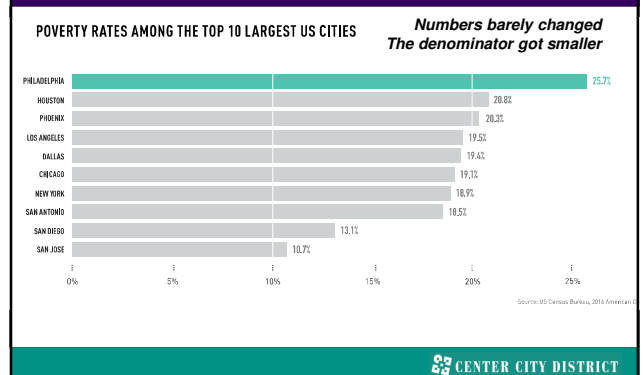
As we lost jobs during de-industrialization, Poverty rate went up everywhere in Philadelphia from 1970-2015 except Center City



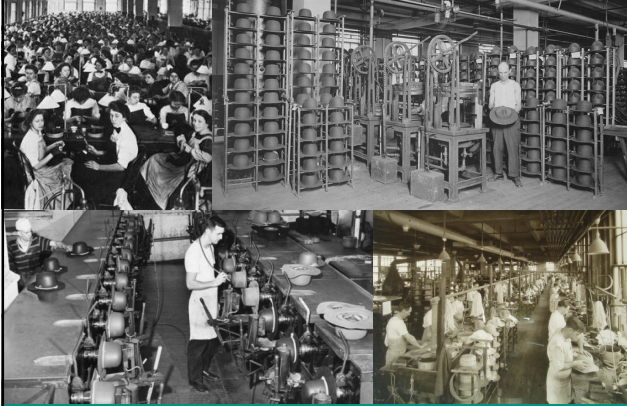
Numbers, rather than rates, tell a different story Modest increase in number in poverty over 45 years +100,000 Big loss in middle income & working class residents (-500,000)



Philadelphia's high poverty rate results in part from losing 5 times as many middle & working class residents as new poor people were added



Here's where taxes enter our story



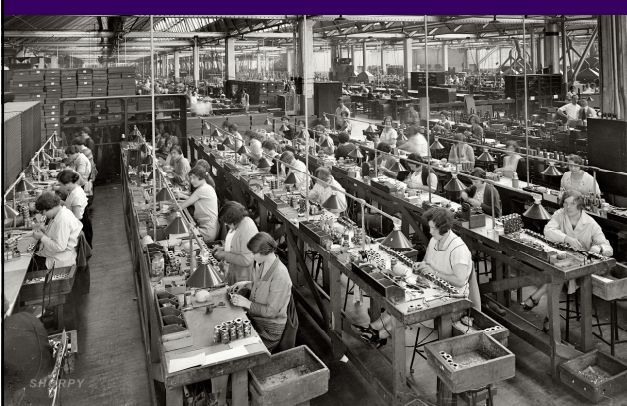
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During the Depression to compensate for falling RE Taxes Philadelphia introduced 1.5% "temporary" wage tax in 1939 when we still made Stetson Hats



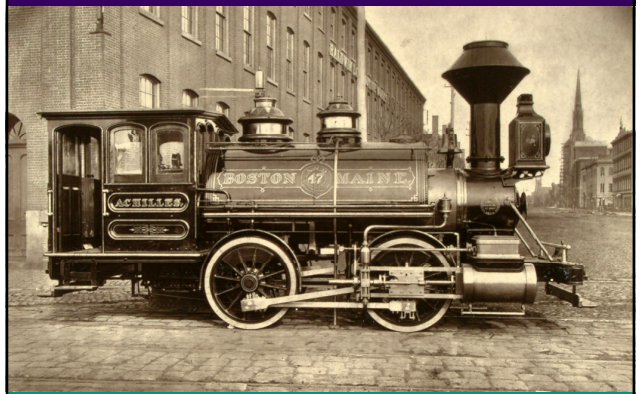
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Atwater Kent Radios



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Baldwin Locomotives



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An era when industry was tied to factories, rivers & railroads



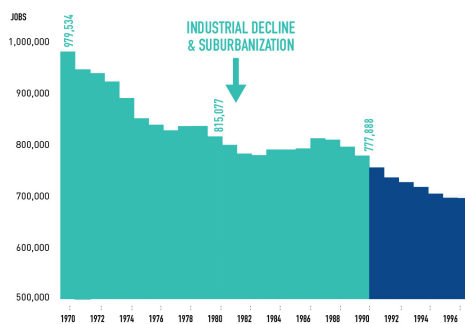
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Philadelphia: the predominant employment center in region



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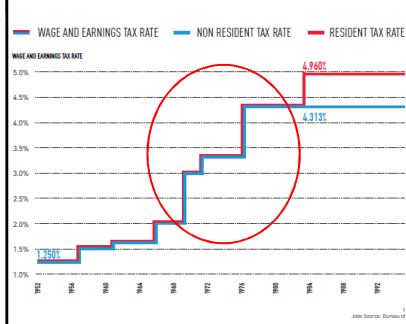
Starting in 1970, through 1990 we hemorrhaged manufacturing jobs (-200,000 jobs)



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In 1970s alone lost 164,457 jobs & 260,399 residents Philadelphia acquired a habit of doctor induced illness

1970-1996 wage tax trend



Macro-trends:
De-industrialization,
suburbanization
& inner-city redlining.

In same decade City more
than doubled its wage tax
from 2% to 4.3%; 4.96%.

People & jobs departed,
tax base shrunk, rates were
raised to keep revenues up
with no efficiencies achieved
in government, pushed more
employers & workers out of
Philadelphia

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1990: fiscal crisis, near bankruptcy



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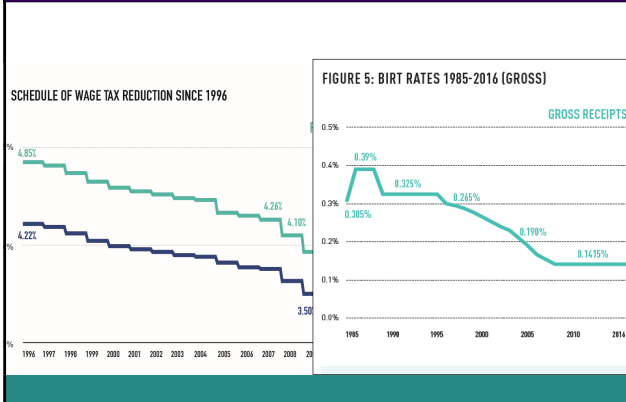
PICA to the rescue: a financing lifeline from outside the City; Deus Ex Machina



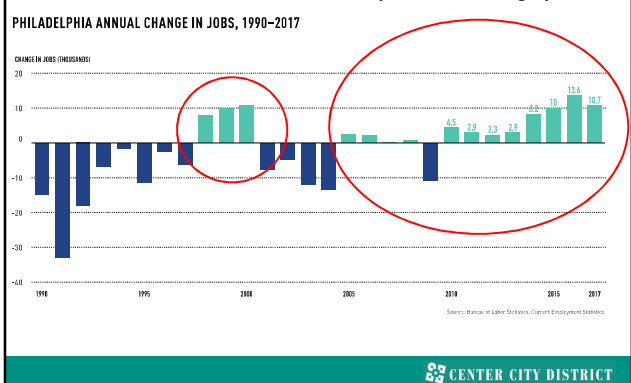
EVALUATES the reasonableness of the assumptions and estimates in the City's Five Year Plan for the Pennsylvania Intergovernmental Cooperation Authority (PICA). PICA was created in 1991 and is responsible for certain financial and oversight functions of the City's financial affairs.

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We turned the corner & began in 1996 Steady process of wage & business tax reduction



Job growth commenced in 1998 almost immediately following tax reduction 1997 & 2000 Tax abatement help us catch demographic wave



Downtown's positive story gained momentum



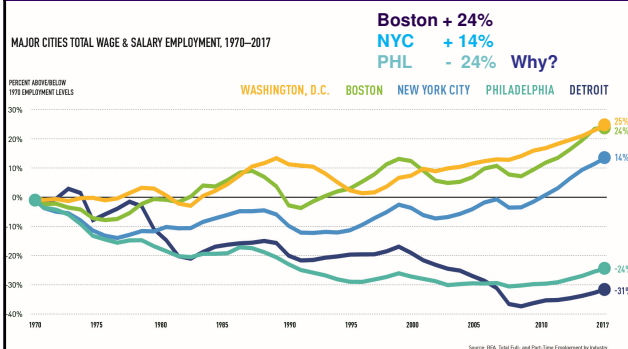
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Let's look in comparison to our peer cities: Boston, New York & Washington DC Also lost 85%-90% of manufacturing jobs they held in 1970



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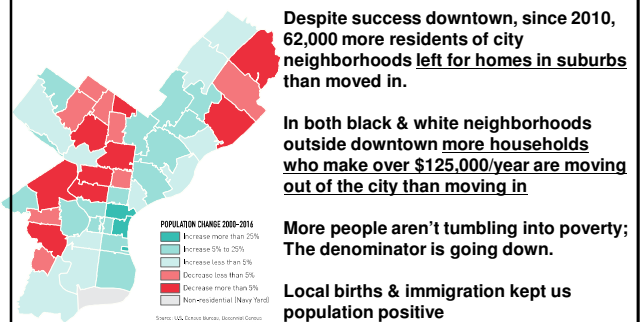
But they surpassed 1970 levels with new, post-industrial jobs while Philadelphia is down 24%; close to Detroit



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Many portions North, West & Northeast Philadelphia these old patterns persist of **population loss**

FIGURE 19: PHILADELPHIA POPULATION CHANGE, 2000-2016

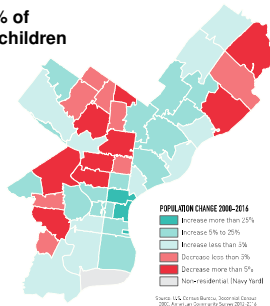


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**81% of households that left Philadelphia 2010-2016
do not have children;
Schools matter, but not determining factor**

FIGURE 19: PHILADELPHIA POPULATION CHANGE, 2000-2016

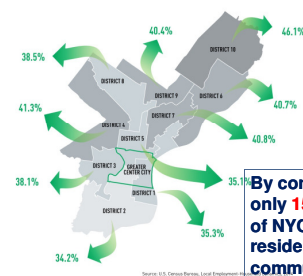
**Citywide only 27 % of
households have children**



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**People follow jobs:
Outside Center City 211,000 Phila residents (40% of workforce)
Reverse commute to suburbs each day**

PERCENT COMMUTING TO JOBS OUTSIDE CITY OF PHILADELPHIA, BY CITY COUNCIL DISTRICT



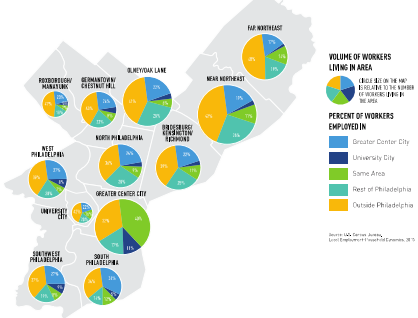
**By contrast
only 15.3%
of NYC
residents
commute to
suburbs**



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**Earlier highlighted the 25% who work downtown
Focus now on 40%+ reverse commuting to suburbs**

WHERE CITY RESIDENTS COMMUTE TO WORK



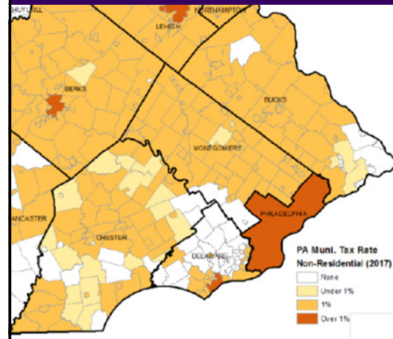
**Philadelphia's wage tax
is structured so that
regardless of where a
city resident works,
their employer is
obligated to withhold
the full city wage tax.**

**Thus, the commute to
the suburbs carries
with it an incentive to
move to the suburbs.**

3% raise

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**Wage tax in a regional setting
3.8% compared to 0-1%
NJ residents get credit against state tax**

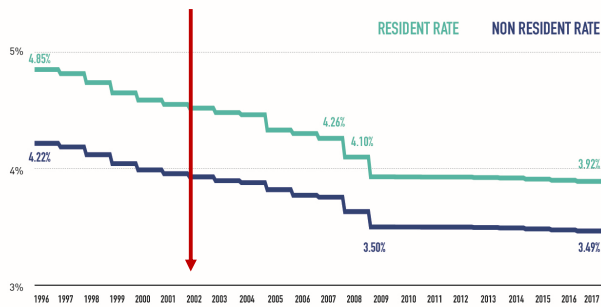


Philadelphia (2017)	
Resident Rate	Non-Resident Rate
3.90%	3.47%

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People forget genesis of the 2003 Tax Commission 2002: Mayor Street proposed ending tax reduction

SCHEDULE OF WAGE TAX REDUCTION SINCE 1996



Briefcase Brigade: 2002

PHILADELPHIA
BUSINESS JOURNAL

Hundreds protest wage tax

Apr 8, 2002, 5:17pm



Foes of the city's infamous wage tax marched on City Hall Monday to protest a plan by Mayor John F. Street to repeal cuts in the tax.

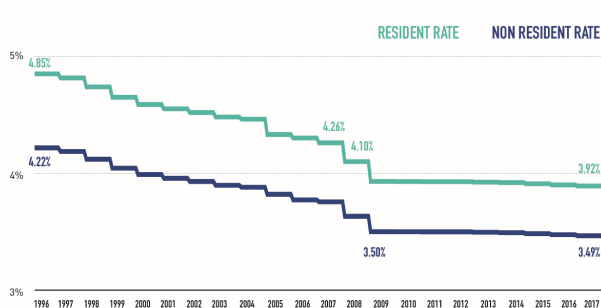
Hours after the crowd dispersed, Mayor John F. Street gave one of the first indications of the prospect for at least a partial retreat on his position, using the word "compromise" at one point in an interview.

"I'm more than willing to talk compromise," he told the Business Journal.

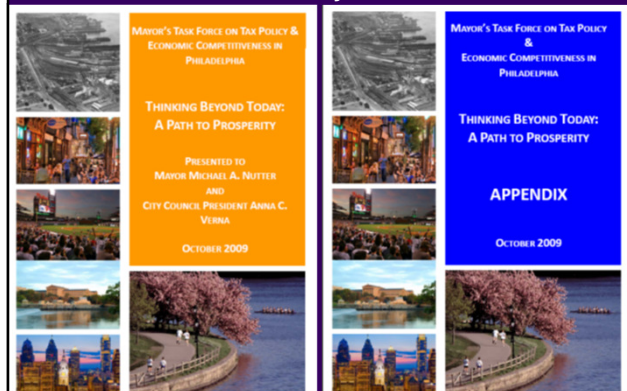
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Reductions restored, but with Recession in 2008 Significant, across-the-board tax reduction came to an end

SCHEDULE OF WAGE TAX REDUCTION SINCE 1996



2009: Mayor's Nutter's Task Force



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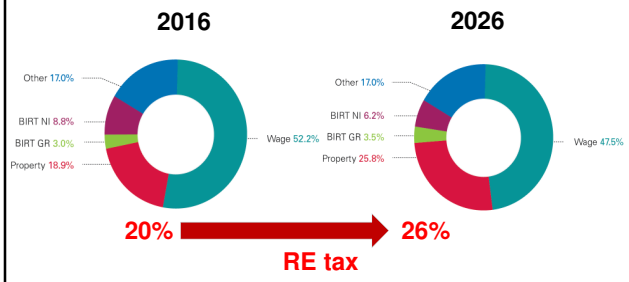
2003 & 2009 tax commissions both concluded:
Local tax policy is a major contributor to slow growth
 If you over-tax what can move (wages & business revenues),



it will!

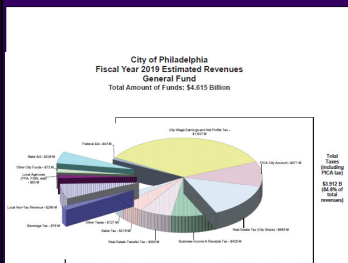
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Both 2003 & 2009 Tax Commissions:
 shift burden from taxing what moves (wages & business revenues)
 to taxing what is fixed & stable: *land & improvements*



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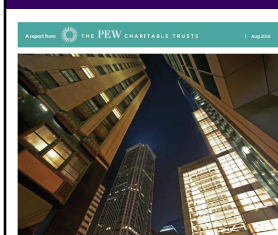
Tax Policy is not just about revenue generation
It is about creating a climate of competitiveness
that facilitates or stifles job growth



- Philadelphia wage tax is almost 4 x regional median.
- BIRT has no counterpart & adds 20% to 50% premium
- Property tax is 66% of suburban Pennsylvania median

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Pew report on business taxes



Philadelphia Business Taxes: Incentives and Exemptions

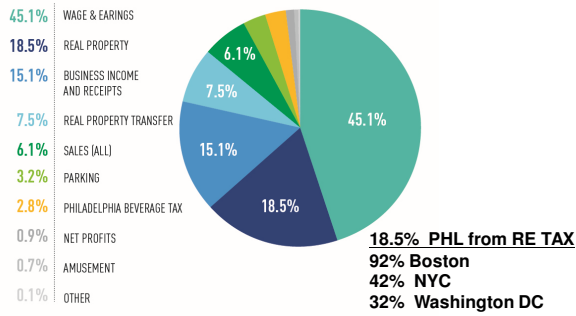
Like many cities, Philadelphia does not regularly evaluate whether tax breaks achieve their goals.

Among highest of all large cities
Only large city to tax both gross revenues & net income

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**60.2% Municipal tax revenue from wage & business taxes
18.5% comes from Real Estate tax**

FY18 GENERAL FUND: LOCAL TAX REVENUES



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Logic of reform: undoing the damage of 1970s-1980s

- Taxing salaries & revenues discourages small business formation, weakens demand for commercial office space, depresses rents & reduces share of real estate taxes local government derives from business properties across city.
- As burden of wage & BIRT (the cost of working & doing business in the city) goes down, demand for real estate will go up, increasing the RE tax base & the share of real estate taxes that can be derived from business properties.

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**2012 Commission proposed: Restart tax reduction
July 1, 2012 to catch the next wave of expansion**

	Resident	Non-Resident
Current	3.9280%	3.4985%
FY 2013	3.80%	3.40%
FY 2014	3.70%	3.35%
FY 2015	3.60%	3.30%
FY 2016	3.50%	3.20%
FY 2017	3.40%	3.10%
FY 2018	3.30%	3.00%
FY 2019	3.20%	2.90%
FY 2020	3.10%	2.80%

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**Lower Business Privilege Tax Reduction
Move to single-factor apportionment**

	Gross Receipts	Net Income
Current	0.1415%	6.45%
FY 2013	0.13%	5.75%
FY 2014	0.11%	5.00%
FY 2015	0.10%	4.25%
FY 2016	0.08%	3.50%
FY 2017	0.06%	2.50%
FY 2018	0.04%	1.50%
FY 2019	0.02%	1.00%
FY 2020	0.00%	0.00%

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Annual General Assembly 2017

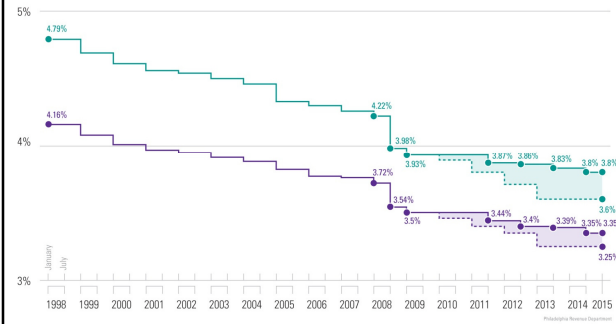
Real estate tax changes

	City	School District	Total
Current	4.123%	4.959%	9.082%
FY 2013	4.2%	5.0%	9.2%
FY 2014	4.3%	5.0%	9.3%
FY 2015	4.4%	5.0%	9.4%
FY 2016	4.5%	5.0%	9.5%
FY 2017	4.6%	5.0%	9.6%
FY 2018	4.6%	5.0%	9.6%
FY 2019	4.7%	5.0%	9.7%
FY 2020	4.7%	5.0%	9.7%

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But the size of wage tax reductions were dialed back

Philadelphia Wage Tax Reductions, 1998-2015



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Instead of across the board reductions in BIRT Added to the long list of exemptions

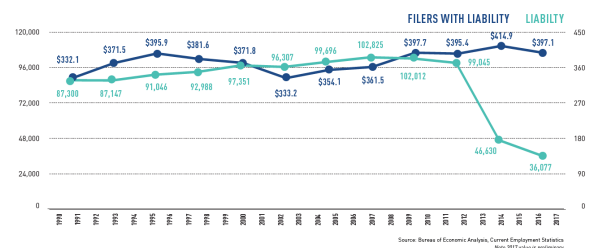
FIGURE 4: ACTIVITIES EXEMPTED FROM BIRT

EXEMPTED INDUSTRY OR ACTIVITY	DESCRIPTION	EXTENT OF BIRT EXEMPTION
Religious and non-profit	Religious, charitable, or educational entities	Full
Public	Business of any political subdivision or State created authority	Full
Port-related business	Any firm operating at the Port of Philadelphia and serving port-related functions	Full
State-regulated utilities	Privately owned power, distribution, telecommunications, and transport carriers	Full or partial
Banks and financial services	Banks, financial trusts	Full or partial
Insurance companies	Insurance companies	Full or partial
Private equity funds	Private equity funds operating in the city	Partial
Textile dyers	Textile dyers	Sales exempt from Gross Receipts
Bookbinders	Bookbinders	Sales exempt from Gross Receipts
New business	New business that meet hiring requirements	Full for two years
Small apartments	Rental income from owner-occupied properties of three (3) or less residential rental units	Full
NMTC loan interest	Firms that receive interest and fees from New Market Tax Credit loans	Interest/fees from NMTC loans exempted

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With additional targeted reductions Council: small business exemptions of \$100,000 Removed 63,000 business from BIRT obligation With no evidence of subsequent small business growth

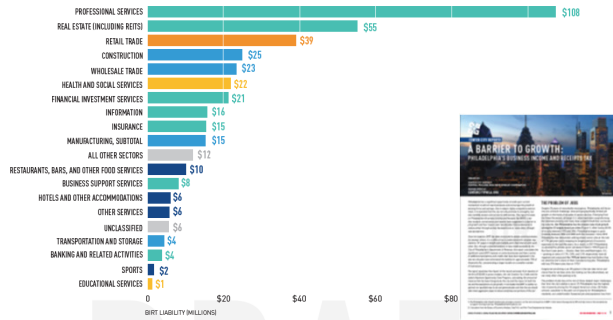
FIGURE 13: BIRT FILERS WITH TAX LIABILITY (EXCLUDING KOZ PROPERTIES)



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Concentrated BIRT payments on office sector The most mobile businesses we have

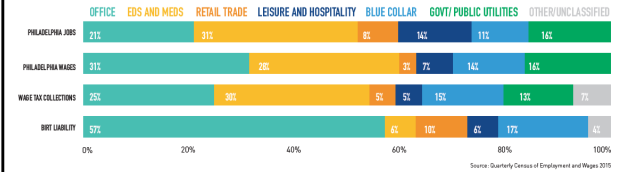
FIGURE 8: 2015 BIRT LIABILITY BY DETAILED SECTOR



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Office employment = 21% of citywide jobs But carries 57% of BIRT payments

FIGURE 7: JOBS, WAGE TAX REVENUE, AND BIRT LIABILITY (2015)



Source: Quarterly Census of Employment and Wages 2015

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Council exempted first \$165,000 from Use & Occupancy Tax 550,356 pay RE tax; U&O concentrated on 6,598 businesses

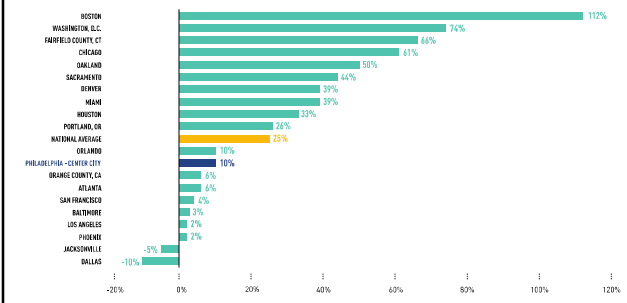
catcd	Taxable Parcels	Rates		Total RE Tax Liability	City Portion	School Portion
		Taxable Value				
Residential	449,591	\$54,883,025,494	1.3998%	\$768,252,591	\$346,696,072	\$421,556,519
Hotel & Apartments	40,256	\$19,248,940,476		\$269,446,669	\$121,595,557	\$147,851,112
Store w/ Dwelling	14,387	\$3,323,941,907		\$46,528,539	\$20,997,341	\$25,531,198
Commercial	10,308	\$19,724,017,722		\$276,096,800	\$124,596,620	\$151,500,180
Industrial	4,231	\$3,698,271,314		\$51,768,402	\$23,361,980	\$28,406,422
Vacant	32,583	\$1,859,286,148		\$26,026,287	\$11,745,111	\$14,281,177
Total	550,356	\$102,737,483,061		\$1,438,119,288	\$648,992,680	\$789,126,607

U&O - Landlord Tax 6,338
U&O - Tenant Tax 260
Total U&O 6,598

CENTER CITY DISTRICT

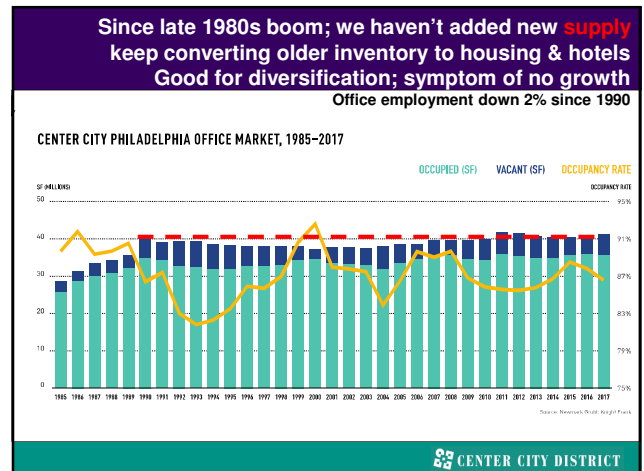
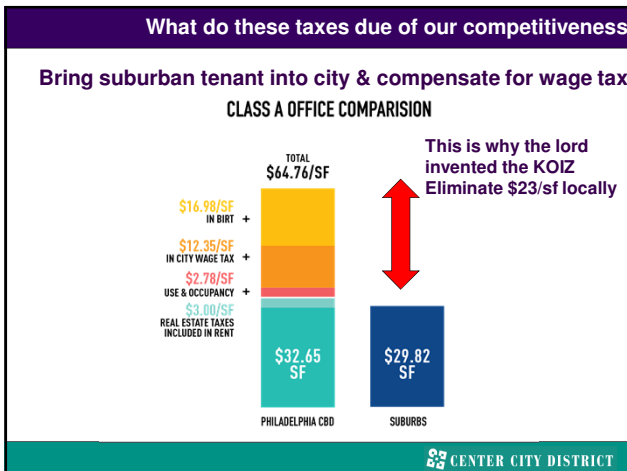
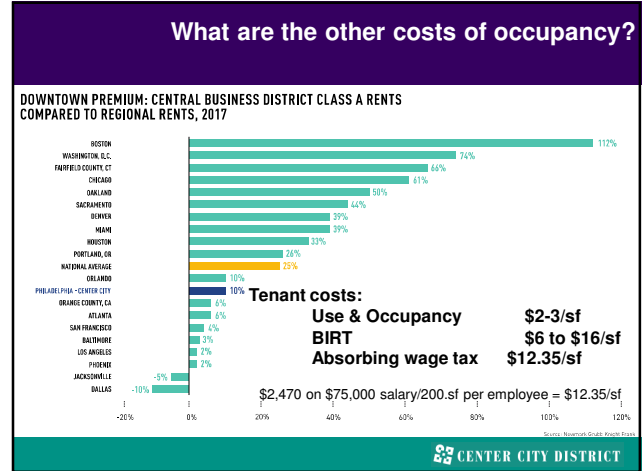
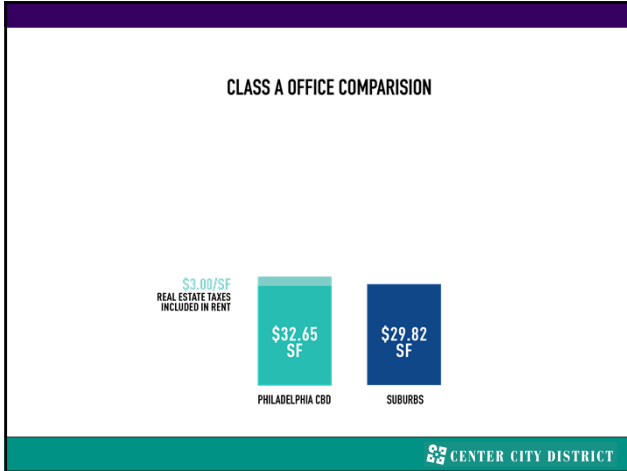
There ought to be a rent-premium for locating in the employee & amenity rich downtown National CBD average = 25%; PHL rent premium= 10%

DOWNTOWN PREMIUM: CENTRAL BUSINESS DISTRICT CLASS A RENTS
COMPARED TO REGIONAL RENTS, 2017



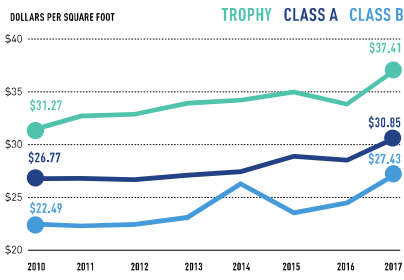
Source: NAAI, National Quality Assurance Program

CENTER CITY DISTRICT



This is why rents are growing slowly:
still way below replacement costs

CENTER CITY AVERAGE ASKING RENT

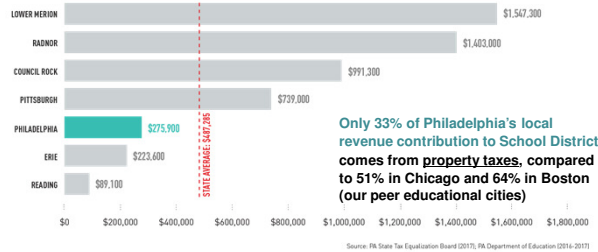


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Low rents = low assessed values =
Philadelphia has inadequate funding for schools

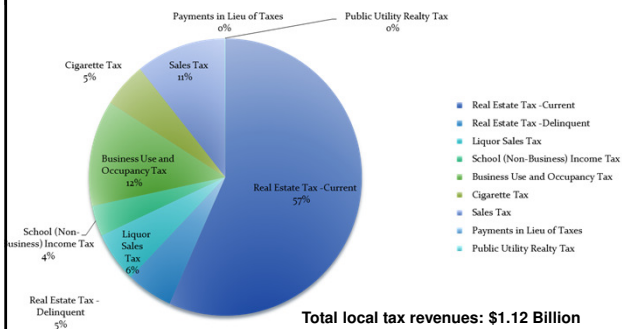
Assessed value per student comes from a very low base

TAX BASE PER PUPIL: 2016-17 PUBLIC SCHOOL & CHARTER ENROLLMENT/
2017 STEB MARKET VALUE



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Diminished real estate tax base means schools need to rely
on the same piecemeal funding as the City



CENTER CITY DISTRICT

Schools are extraordinarily important citywide
But the best way to fund them is to grow the base



CENTER CITY DISTRICT

Recommendations from 2009 Tax Commission How to fund wage & BIRT reduction

- **Cut 5% from City's budget, so municipal government needs less revenue. In a city with huge social needs & county functions, like courts & prisons to support, City Council has consistently opposed; Mayor Kenney opposed**
- **Reduce City's need for taxes by selling a large public asset to pay down pension liabilities which are eating our municipal budget. Failure to sell PGW**
- **Raise RE millage rate for all real estate & use new revenues both to achieve reduction in wage tax & BIRT. Raises residential rates: traditionally a political non-starter Creates major problem for small apartment building owners**

Missed opportunity 2018 reassessment debate: the roads not taken

Revenue Neutral:

As assessed values rise, lower rate to match 2019's liability (base x rate) to 2018

Result: rate could have been lowered from 1.3998% to 1.233% then tack on increase for schools

Tax Reform:

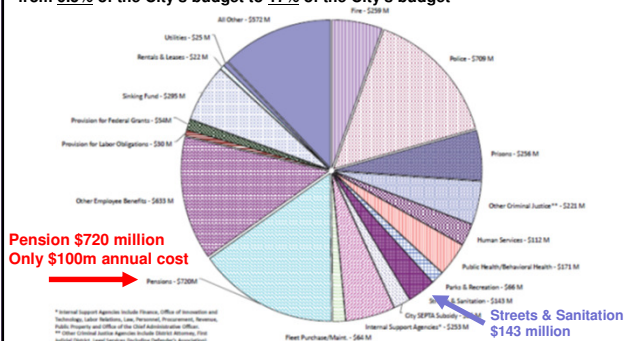
Raise rate for schools; lower wage + BIRT by increased revenues Coming from real estate reassessment

Both would have meant curtailing the appetite for spending or Finding ways to achieve efficiencies

CENTER CITY DISTRICT

Road not taken: Pension fund reform

From 2006 pension cost from \$331.8 million annually to \$720 million in FY19, from 9.5% of the City's budget to 17% of the City's budget



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Pensions may be the only thing more boring than tax reform

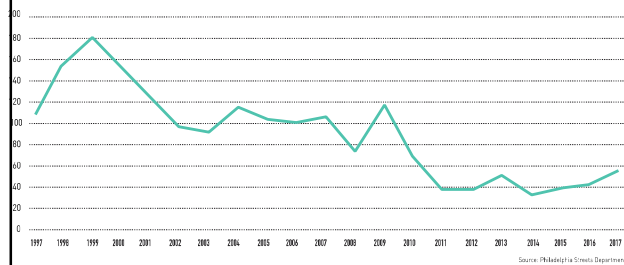


CENTER CITY DISTRICT

Amount of money assigned to street re-surfacing has been trending downward
No dedicated revenue for technology enhancements
Linking Potholes & pensions may get the public's attention

FIGURE 14: STREET MILES RESURFACED 1997-2017

\$720 million vs \$143 million

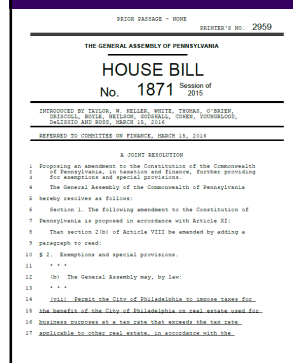


CENTER CITY DISTRICT

Tax Reform: 2015-2018: How to restart tax reduction
Replace year-to-year uncertainty & tax increases
with a predictable path for tax reduction
Without opening gap in City budget

- Cut 5% from City's budget, so municipal government needs less revenue.
- Reduce City's need for taxes by selling a large public asset to pay down pension liabilities which are eating our municipal budget.
- Raise RE millage rate for all real estate & use new revenues both to achieve reduction in wage tax & BIRT.

That's what led us to try to modify uniformity
Wilson Goode Jr. first proposed; we modified the idea



Prime Sponsors:
Representative John Taylor,
Representative William Keller
Senator Anthony Williams
Mayor Jim Kenney

June 27, 2016 PA House approved
HB 1871 bi-partisan vote of 170-25.

On July 1 Senate followed with a
margin of 47-2

CENTER CITY DISTRICT

A broad coalition of supporters
Came together around jobs

www.PhiladelphiaGrowthCoalition.com

SUPPORTERS:

African American Chamber of Commerce
 Brandywine Realty Trust
 Building Owners' & Managers' Assoc., Phila
 Central Philadelphia Development Corporation
 Committee of 70
 Economy League of Greater Philadelphia
 General Building Contractors Association

Int'l Brotherhood of Electrical Workers, Local 98
 Metropolitan Regional Council of Carpenters
 Northeast Chamber of Commerce
 Parkway Corporation
 Philadelphia Building and Construction
 Trades Council
 PREIT

Greater Philadelphia Hispanic Chamber
 of Commerce

Service Employees Int'l Union, Local 32BJ

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Restarting without opening gap in City budget Proposed modification of Uniformity

Commonwealth enables Philadelphia to assess business properties at 15% more

(1.39 residential; 1.61 commercial).

15% differential (not actual rates) set by state law.

Revenues generated from differential are dedicated by state law to reducing wage & business taxes.

Dedicated modification not open-ended modification

Goal: Reduce wage tax below 3% over next decade & cut net income portion of BIRT in half over same period



Amendment did not specify rates

Proposed amendment did not specify tax rates to be charged by the City. The amendment specified only that if the City chose to raise commercial property taxes, the rate on commercial properties could be no more than 15% higher than on residential & the extra revenue generated through that increase is devoted to wage & business tax reduction.

Philadelphia remained free to raise or lower its real estate rates, so long as commercial & residential rates move together, maintaining 15% maximum differential. There was no requirement that enabling legislation specify Philadelphia's tax rates.

City free to structure its own tax policy on a "pay-as-you-go" basis. When there is an increment, it must be pledged to wage & business tax reduction; but if, in any year, there is no increment, the City is not forced into a deficit position.



How the plan would have worked

By January each year, the City's Office of Property Assessment (OPA) produces the assessed value for all real estate in advance of the coming July 1st municipal fiscal year.

As part of budget planning process, the Director of Finance will multiply the total taxable assessed value of all properties "used for business purposes" times (A) the current tax rate of 1.3998 and then repeat the exercise using (B) a tax rate that could be up to 15% higher, 1.6098%.

Then "B" minus "A" = the real estate tax increment available to pay for wage and business tax reduction.

This simple math is calculated each year by the Finance Director, based on known, certified assessed values, not relying on any econometric model or on "supply-side" assumptions about tax base growth.



How the plan works

Assume this calculation results in an increment of \$100 million; then assume a collection rate of 90% to allow for delinquency and appeals and \$90 million is available in incremental revenues (2018 estimate was \$80 million)

According to proposed amendment, this increment must be used for tax reduction purposes, reducing aggregate revenues collected by the City from wage and business taxes

Growth Coalition's recommendation is for this allocation to be defined in the Enabling Legislation as approximately 70% directed to wage tax reduction & 30% to BIRT reduction, resulting in a projection of the City's ability to reduce the wage tax below 3% for City residents over the next decade and to cut the net income portion of BIRT in half.



A self-help, pay-as-you-go plan

This was a *pay-as-you-go* plan that insured that no gap opened in the City's budget – each dollar in wage and BIRT reduction is paid for from the real estate tax increment.

If there is no increment, there is no obligation to reduce other taxes, so no deficit is ever created.

This was also a plan that guarantees by law, not by “handshake” that if real estate taxes on properties used for business purposes are raised by up to 15%, the increment must go to wage and business tax reduction, not into General Fund spending.



Enabling Legislation Definition of properties used for business purposes

Following types of properties would be subject to the increment:
Office buildings, retail, industrial, hotel & large apartment buildings.

For most businesses, the reduction in BIRT more than offsets the impact of the 15% increase passed through in real estate taxes

The Growth Coalition recommended that Enabling Legislation should exempt from the increment approximately 14,000 apartment buildings of 4 units or less and another 8,286 stores with dwellings above because they are not classified as *business properties* by the City of Philadelphia.

The coalition also proposed to exempt 15,000 units of subsidized housing, which are separately classified by the City.



Impact on businesses

Analysis by major accounting firms show a positive impact on tenants & owners as BIRT taxes go down more than RE tax pass-through goes up

Similar analysis for small business owners

We had accountant under contract analyzing tax returns on a confidential basis for any business who requests



1435 Walnut Street, Ste. 300
Philadelphia, PA 19102
215-717-0777
econsultsolutions.com

Modeling the Impact of Tax Reform in Philadelphia August 2015

•80,000 new jobs

•It will produce more tax revenues than the City's most recent Five-Year Plan (it is “revenue positive”), because it pays for wage and business tax reductions with an increase in the commercial real estate tax rate.

• It generates \$362 million more for School District over next 10 years than City's Five-Year plan. It will also, will generate additional tax revenues for School District from the use & occupancy tax, liquor tax, & school income tax.



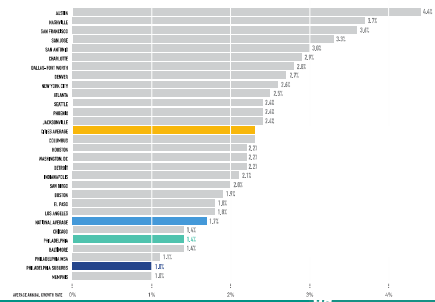
Setting our sights on just getting to be average
If post Recession we grew at same rate as 26 city average
Growth rate would have jump from 1.4% - 2.3% per year



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Philadelphia would have added 45,400 more jobs (one Amazon)
in the last 8 years on top of existing 55,100
= 100,500 new job opportunities.

PRIVATE WAGE & SALARY JOBS AVERAGE ANNUAL CHANGE, 2009-2017



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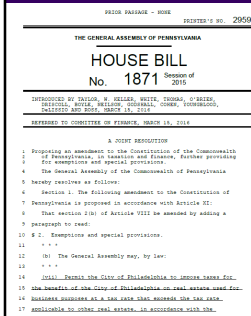
Fastest way to reduce unemployment & poverty
Create a competitive setting
that increases income & grows jobs faster

That should be primary goal that unifies everyone!



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The legislation ultimately failed in 2018



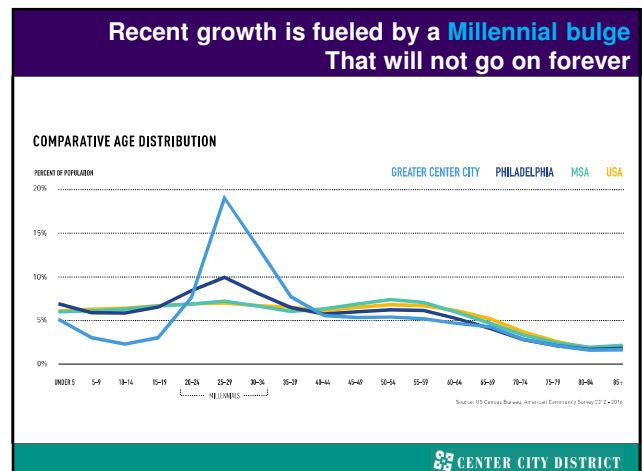
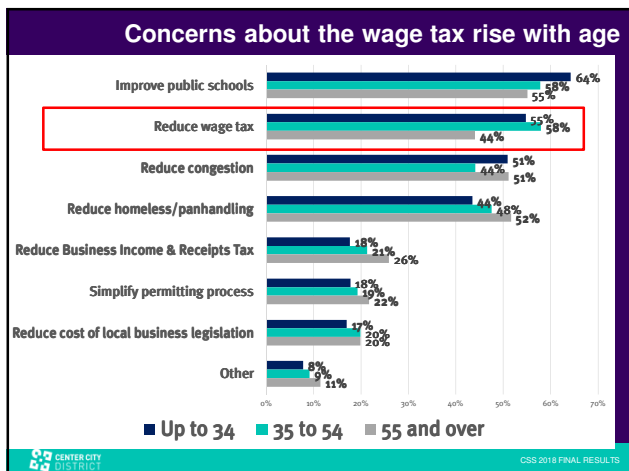
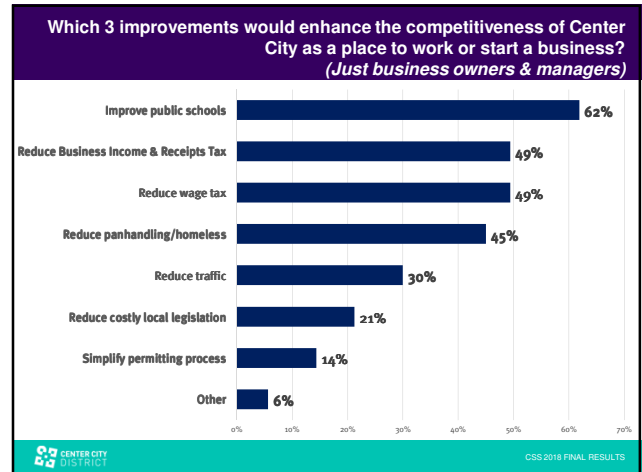
Prime Sponsors announced retirement:
Representative John Taylor
Representative William Keller

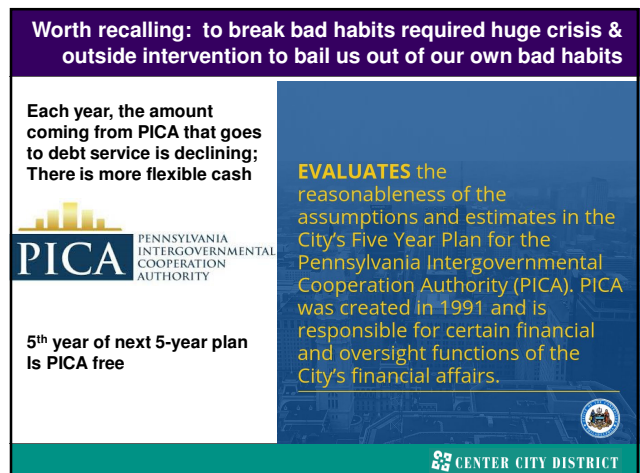
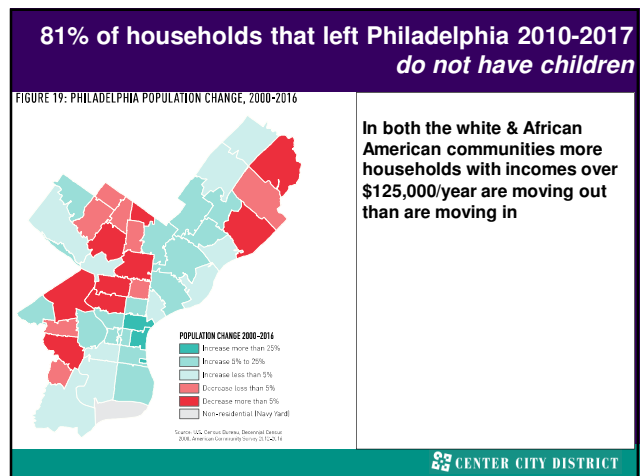
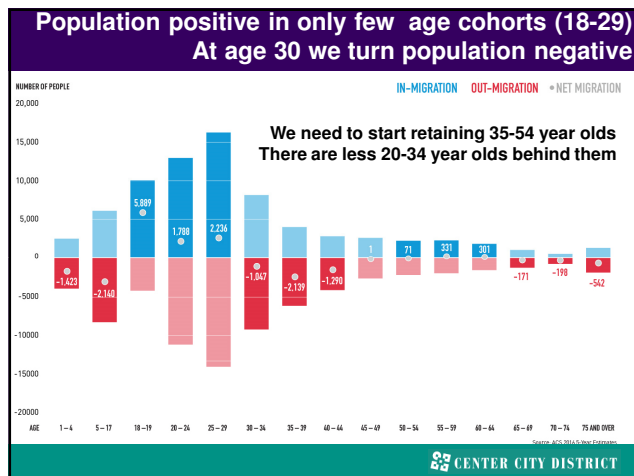
Modifying uniformity too big challenge
for state-wide Republicans, especially
since it involved raising taxes on
business; "falling dominoes"

Small apartment owners waged
campaign of opposition

Dedicated modification, rather than
"open-ended modification" was not
supported by the Council President

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Instead of echoing the extremes of national politics
We need locally to find a practical middle ground



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We need a politics that doesn't divide people
But rather expands the benefits of growth
To every neighborhood in Philadelphia



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Tax reform & fiscal discipline are key to growth &
Poverty reduction



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We are going to need more adventures in Tax Land:
Perhaps some in this room have more productive ideas



Paul R. Levy
Center City District
www.centercityphila.org

 CENTER CITY DISTRICT