

**Reforming Philadelphia's Tax System
Where Do We Go From Here?
Edward Schwartz, Chairman
Philadelphia Tax Reform Commission
November 18th, 2003**

In accordance with the City Charter Amendment that established the Philadelphia Tax Reform Commission, our formal tenure as Commission is over. Not only are we over, but the Charter amendment even goes so far as to say that we cannot be reconstituted for five years—and then only through a 2/3 vote of City Council. It is clear that those who drafted this amendment were anxious to have us complete our work in a limited period of time and then disband.

We are required to disband, but we do not intend to disappear. Those of us who have spent more than 400 hours over the past 11 months in meetings, hearings, and back-and-forth email exchanges are not about to hand over our report to the City, only to watch it gather dust in the Municipal Services Building. The recommendations that we present to you today were supported overwhelmingly by the Commission—14 to 1. Now it is time for the public discussion and debate on these recommendations to begin and most of us intend to participate in it..

We recognize that our proposals are ambitious. That is why we recommend implementing them over a 10 year period, between 2004 and 2014. But our targets are clear: reduce the wage tax to 3.25% for both residents and commuters--and down to 3.0% for residents; 2.5% for commuters if local tax relief from Harrisburg becomes a reality Eliminate not only the Gross Receipts Tax but the Business Privilege Tax by 2014, because this kind of tax is not imposed on business by any other major city United States. Move steadily toward significant land tax valuation, until 50% of all real estate tax revenues will be generated from a tax on the value of land and 50% from a tax on the value of structures—as opposed to the 77.5% tax on structures that we impose today, versus only a 22.5% tax on land.

We do expect faster action on reforms that will not cost the City a great deal of money. We call for an immediate examination of real estate assessments—especially in low income neighborhoods--to insure that all properties are assessed uniformly as the law requires. We want the Board of Revision of Taxes to tell each of us what they think 100% of the market value of our properties represents—not just 70%, as is the case now—and then we ask that the City Council reduce the real estate tax rate so that we don't face a whopping property tax increase in the process. We propose the creation of a new Taxpayers' Advocate to help residents and businesses file assessment appeals and a new, separate, Assessment Appeals Board appointed by the Mayor to hear these appeals. And we call for a new 'budget based' real estate tax system, whereby the Mayor and City Council will take projected assessment increases into account and then determine what the real estate tax rate should be, given what the City needs to raise.

Finally, we make several recommendations specifically aimed at reducing the tax burden, especially for those living on fixed incomes and the working poor. Accurate and uniform assessments will bring immediate property tax relief for hundreds, perhaps thousands, of low income homeowners whose assessments are now too high. We recommend 'buffering' tax increases that reflect higher assessments by basing a homeowner's tax on the average assessment over a three year period. And for the working poor, we call upon the City to make at least \$1 million available to support the Campaign for Working Families led by the Greater Philadelphia Urban Affairs Coalition so that they can help low income wage earners take advantage of as much as \$160 million in tax rebates available to them from the federal government and the Commonwealth of Pennsylvania.

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So these are some of our major recommendations. The entire package is included in the Report that we release today, along with analysis that explains not only what we are recommending, but why. We were asked to produce a blueprint of a new tax system for Philadelphia to make us competitive and to ease the tax burden on residents and business. We have done so—by an overwhelming margin. Given the widespread skepticism when we started that we could agree on anything at all—given the diversity of our group—this was no mean feat. But the lesson here is clear: that our tax system is so seriously flawed that anyone who cares deeply about the overall prosperity of the city must conclude that it needs to be significantly reformed.

The real stakes relate not simply to taxes, but to the economy of our City and this entire region. If there is any single conclusion that most of us have reached as a basis for these recommendations, it is that both the wage tax and our business taxes are creating a stone wall that is blocking further significant economic expansion in Philadelphia, despite the City's best efforts to achieve it. Specific projects might move forward with public support—like Convention Center Expansion, or improvements in the Airport, or new development on Penns' Landing. But to the extent our prosperity depends upon individual businesses choosing to remain here and upon new businesses deciding to locate here because it makes economic sense, then we are in serious trouble and our tax system is the main reason why.

Moreover, this is not just a City problem, it is a problem for this entire region. Every serious study of this region's economy—from Anita Summers' and Ted Hershberg's work ten years ago to the Pennsylvania Economy League's book **Fight or Flight**, published last year—has argued that this entire region suffers when the City of Philadelphia itself is seen as an unattractive place to live and do business. Philadelphia is a great place to live. We all know that. But as long as we impose prohibitive taxes on business—unparalleled in the country—we will not be a great place to do business.

So if we simply *must* make these serious changes in our tax system, how can we afford them? Part of the Commission's answer is to implement the reforms over a ten year period to minimize the short-term revenues lost until—we believe—economic development itself will start to make up the difference. Beyond receiving real help from the State—which would be ideal—we also suggest a variety of new ways to raise revenue locally—all reflecting either what Philadelphia has done in the past or what other cities around the country are doing to raise revenues today.

The challenge is significant and we know it. We will need to close a revenue gap of roughly \$50 million per year to reduce tax revenues by \$200 million over the next four years of the City's five year plan. Moreover, Econsult—the firm that we engaged to project the economic benefits of wage and business tax reduction—has made it clear that if reducing City revenues results in service cutbacks that erode our quality of life, then we will not reach the economic goals set for this program either. So we are painfully aware of the serious obstacles that we face.

But I would like to suggest that we start in a new place as a basis for addressing this complicated problem. Instead of simply examining how we might raise revenues or reduce spending, what we really need to ask is how we can curtail the destructive behavior that both prevents us from raising revenues and accounts most of our public spending, because that will turn tax reform into an engine driving—demanding—improvement in the City as a whole life.

Consider just three of our proposals to raise revenues.

Right now, the Revenue Department tells us that we collect only 95% of the taxes owed to us in a given year. They are uncertain as to how we might raise more. Given that we raise roughly \$2 billion in

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taxes now, that means that we are losing \$100 million every year. We therefore propose making a serious effort to raise 96% of what the City is owed—just 1% more. That will bring an additional \$20 million per year. And if we believe that avoiding taxes is a form of destructive behavior, then it tackles that problem as well.

Then consider the fines that we impose for serious code violations on land and buildings all over the City of Philadelphia, which seriously erode our quality of life. A database posted on the Neighborhood Information System at the University of Pennsylvania tells that there were more than 115,000 housing code violations still outstanding in Philadelphia as of April, 2003. What does this say about our city? Granted that many people don't have the money to keep their homes up to code, most of us do. The CLIP Program introduced by Councilwoman Joan Krajewski in the lower Northeast demonstrates that we can improve neighborhoods and raise revenues simultaneously by forcing code violators to pay up. How much might we raise if we established this principle throughout the City? That's what I mean by taking aim at destructive behavior.

Consider the Land Tax that we are now recommend. Presently, we let people own vacant plots of land at what amounts to minimal cost. Some of these absentee owners maintain their land; most do not. A good portion of the resources invested in our Neighborhood Transformation Initiative has gone to clean up the mess created largely by the owners of vacant land. Presently, the only way we can address this problem is sock vacant property owners with code violations and then collect the fines. But if the owners of vacant land were facing higher and higher tax bills every year because the City was now taxing land as if it were actually worth something, then they would have every incentive to develop these parcels or sell them, instead allowing them to become public waste barrels for trash and abandoned cars. That would raise revenue by making those who are destroying our neighborhood pay the price.

And on the spending side of the budget—we were enjoined in the Charter amendment from making specific recommendations about public spending, and we don't—but I would ask you to consider this:

In 1990, when I was still in the government, there were 4,500 people in the Philadelphia Prison. The budget was \$67 million.

Now there are 8,000 people in the Philadelphia Prison at a cost of \$183 million. That's a difference of more than \$105 million.

In FY90, there were roughly 6,000 police officers in the Department. The budget was \$270 million—not even counting the fringe benefits that public employees receive.

Today, there are 7,000 police officers in the Department, thanks to the federal COPS program under the Clinton administration, that subsidized the hiring of 750 additional police officers. We pay for them now, and the Police Department's budget has jumped to \$483 million, even before the overtime we're paying for Safe Streets. That's an increase of more than \$200 million over the past thirteen years. To be sure, the crime rate has dropped during this period and people *feel* safer in their neighborhoods—which is quite important. I am not about to stand here and advocate an immediate and precipitate drop in funds for public safety.

But are we to say that the same number of people will commit the same number of crimes in Philadelphia for the next five years and beyond? What comment does that make on the future of the City? The business and civic organizations that fight to lower taxes generally do not get involved in the debate

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over crime. They should. Reducing the number of people who commit crimes in Philadelphia will not only help us all live more safely, it can create the local equivalent of a peace dividend in savings that we then could apply to tax reduction. That—again—is what I mean by focusing attention on destructive behavior. As we come to grips with these critical social problems—a major priority of the current administration—we ought to be able to make significant savings in our budget that can be used to lower taxes.

So we give you a blueprint today for a new tax system in Philadelphia that will make us competitive for businesses and residents and ease the burden of taxes on all of us.

With or without a Tax Commission, those of us who produced these recommendations are ready to fight for them.

Join us.