Testimony on Revenue Bills 150165, 150166, 150167
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Good afternoon, Council President Clarke and Members of the Committee. I am Rob Dubow, Director of Finance, and I am here to testify on Bills 150165, 150166, and 150167. I am joined at the table by Clarena Tolson, Revenue Commissioner, and Rebecca Rhynhart, Budget Director.

Bill 150165 would authorize an increase in the real estate tax rate to support enhanced educational investments for Philadelphia's school children. Under this bill, the public school portion of the property tax rate – which supports both District and charter managed schools – would increase from 0.7382% to 0.8633% in FY2016. This action would generate $105 million in desperately needed stable, recurring revenue to help to fill an existing $84.7 million deficit in FY2016 and fund investments as described in Dr. Hite's Action Plan 3.0.

Our schools and students have gone through several painful years of a funding crisis caused by a number of factors, but primarily by cuts in state funding and the end of federal stimulus funds. The District has struggled to balance its budget and avoid running out of cash. It has made unavoidable cuts that have seen the services it provides deteriorate to a level that no one thinks is acceptable.

At the same time as schools were making painful and unavoidable cuts, to ensure that those cuts weren't substantially worse, the Mayor and the City Council were taking historic steps to add funding to the District. Through a combination of tax increases, parking fee increases, improved property tax collections and increasing the City's grant to the District, among other steps, the City's elected officials increased funding to our schools by more than it had been increased at any point in the last 30 years. In total, $360 million in recurring revenues have been added since FY09. While these increased dollars were necessary, the funding alone has not been sufficient to allow the schools to provide for the safe school environments and necessary curricular and extracurricular activities for Philadelphia youth.

We know that the only way the schools will receive the funding that is needed to give the city's children the education they deserve is if the State does its share. That means that the state must increase funding and adopt a full and fair funding formula. While I'll discuss Governor Wolf's proposal in more detail later in the testimony, even with an increase to an appropriate level of state funding, there is more that must be done at the local level. That is why Superintendent Hite has asked both the City and State to make additional investments in our school children next year.

Recognizing that the State must bear a larger portion of that investment, Dr. Hite asked the Commonwealth to provide substantially more than he asked the City to provide. The requested City portion of the investment is $105 million.

Dr. Hite has laid out a clear vision for how those investments would be made in District operated schools. If both revenue increases are approved, the schools would be able, for the first time in years, to focus on making investments to provide essential educational opportunities for Philadelphia's school children rather than considering crippling cuts just to ensure that schools can remain open. These investments include providing social, emotional and behavioral health interventions and support to many more students who experienced adverse childhood experiences; counseling, health and library services to students who experienced declines in these services; more students with opportunities to participate in advanced programming, such as Advanced Placement, International Baccalaureate, and dual enrollment; and, resources to support District turnaround schools and expand or replicate high performing schools.

Without the additional funding, our schools will have another bleak year. Increasing costs for pensions, healthcare, debt service and charters – all of which are beyond the District's ability to control – combined with stagnant revenue, will once again force the District into a position in which it has to make cuts rather than investments. That is a year none of us want to endure.

Given those choices, the Mayor believes it is essential for both the Commonwealth and the City to provide stable, recurring revenues to invest in the education of the city's children. Governor Wolf's proposed budget would provide $159 million in basic education funding for the School District. The District would also receive an additional $25 million in cyber charter reimbursements. This proposal would provide critical revenues to help address past years of declining State funding. The Mayor has proposed providing $105 million through a property tax increase. While the Mayor doesn't like the idea of raising taxes, he believes it is a better option than facing another year of cuts.

In considering how to generate additional revenue, the Administration looked for a local source that would provide stable, recurring revenue beginning in FY16 without needing any state action so that the District could plan for its future knowing that its revenues were secure. We believe that the best option is an increase in the property tax.

While we understand increasing the property tax will create an increased burden for taxpayers, we'd like to provide some context about the proposed increase. The median residential property in Philadelphia is valued at $113,100, and under this proposal, property taxes on the median home value would increase by $104 in FY2016 (half of the properties in the city are above the median and half are below) or by less than $9 per month. More than 42% of Philadelphia residential properties are valued below $100,000 and their additional tax would be under $88 per year, less than $7.50 per month.

Those proposed increases could be offset by portions of the Governor's proposal. In addition to proposing to increase funding for our schools, the Governor has proposed substantial tax relief. That relief includes the wage tax, the sales tax, the cigarette tax and the property tax. Philadelphia would receive $87.6 million in property tax relief in FY17, to be used to increase the amount of the homestead exemption to the maximum allowed under State law. Moreover, the proposal provides for $1.7 million to go towards reducing property tax rates, which would decrease the rate from 1.4651% under the Mayor's FY16 proposal to 1.4633% in FY17. The resulting changes of the property tax rate increase for the School District combined with the larger homestead exemption would mean that a typical Philadelphia homeowner would see a decrease in their current property tax bill by $287 (from a total of $1,114 to $826) from FY15 to FY17, although the bills would increase from FY15 to FY16 by $104.

Combined, the Mayor's and Governor's proposals would provide our schools with $289 million in new resources and investments to provide essential educational opportunities for Philadelphia's school children. If both the Mayor's and the Governor's proposals are enacted, by FY17, City residents would see a combination of lower taxes and increased investments in education.

The Administration believes it is critical to provide stable, recurring funding to our schools in order to invest in educating our children. Bill 150165 provides such revenue without having a negative impact on the City's General Fund or requiring any further action in Harrisburg.

Bill 150166 authorizes the same tax rate for the use and occupancy tax as is currently in place to benefit the school district. Bill 150167 would authorize a decrease in the wage earnings and net profits tax rate for both residents and non-residents. Currently, the wage tax rate is 3.9200% for residents and 3.4915% for non-residents. The resident rate includes 1.5% that is reserved for PICA and is used to pay debt service on bonds issued by PICA with the remaining funds counted as revenue from other governments. Bill 150167 would lower the rates to 3.9102% for residents and 3.4828% for non-residents. Wage tax cuts were resumed annually in FY14 after being suspended in FY10 during the economic downturn. These tax cuts are intended to make the City more competitive and lead to job growth.

This concludes my testimony. I am happy to answer any questions that you might have.