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April 13, 2016

The Honorable Darrell Clarke
City Council President
City Hall, Room 490
Philadelphia, PA 19107

Dear Council President Clarke:

This letter is in response to questions raised at the April 29, 2016 hearing before the Committee of the Whole on the Fiscal Year 2017 proposed Operating budget and FY17-FY21 Five Year Financial and Strategic Plan. At this hearing, the following questions were asked:

From Councilman Henon:

On page 23 of 5 Year Plan we show projected job growth for the duration of the 5 Year Plan. Can we show specifically in which sectors we expect to see this job growth?

Please below for a chart showing projected job growth, by 4-digit NAICS code, for the Energy and Construction sectors. This data has been provided to the Office of Budget and Program Evaluation from IHS Inc., our economic consultants.

Industry	NAICS Code	Number of Jobs (2014)	*Projected* Number of Jobs (2021)
Energy Sector			
Power Generation & Supply	2211	2,914	2,820
Pipeline Transportation of Natural Gas	4862	15	21
Petroleum & Coal Manufacturing	324	1,077	1,136
Construction Sector			
Residential Building Construction	**2361**	1,376	2,184
Nonresidential Building Construction	**2362**	1,608	1,448
Heavy and Civil Engineering Construction	**237**		
Utility System Construction	**2,371**	557	630
Land Subdivision	**2,372**	14	14
Highway, Street, and Bridge Construction	**2373**	524	613
Other Heavy Construction	**2379**	52	56
Specialty Trade Contractors	**238**		
Foundation & Structure Exterior Contractors	**2381**	1,064	1,336
Building Equipment Contractors	**2382**	4,457	5,196
Building Finishing Contractors	**2383**	890	1,243
Other Specialty Trade Contractors	**2389**	490	654

From Councilman Domb:

The City estimates $750 million in tax delinquencies, with the real estate tax as the biggest contributor. The City is working to increase collections on real estate, water and sewer. However, do we have a plan for the other delinquencies? How will we get those monies collected and written off in next 12 months?

As of February 2016, there is $582 million outstanding in active tax delinquencies including penalties and interest; including accounts under appeal or in payment agreements. On page 162-163 of the FY17-FY21 Five Year Financial and Strategic Plan, the Revenue Department provides more information about tax collection efforts (see attachment 1). The Revenue Department will present a more detailed plan by the time of its scheduled budget hearing on May 11, 2016.

From Councilwoman Quiñones-Sánchez:

The administration mentioned they did not look into including powdered drinks for the sugary drink tax but would consider it. Could you provide this analysis?

The Administration is reviewing the impact of including drinks sold that come from powdered mixes. We are exploring the tax administration and enforcement impacts of including these products. Based on available sales and consumption data we do not anticipate beverages made from powdered drink mixes to have a significant impact on revenue generation.

From Councilwoman Quiñones-Sánchez:

Provide a timeline for how long it would take to do the analysis of sugary drink tax impact by neighborhood.

Neighborhood or zip code level sales data for sugary drinks is not available. However, we know that, because of heavy sugary drink marketing in poor and minority neighborhoods, consumption in these neighborhoods is likely to be higher. This partly explains why rates of obesity and diabetes are much higher in these neighborhoods. The sugary drink tax is a tax that no consumer has to pay; people can switch to unsweetened drinks, bottled water, or tap water. People with low incomes are more sensitive to price than wealthy people, so they will be more likely than others to make that healthy switch – and to benefit with reduced rates of obesity and diabetes.

From Councilman Greenlee:

The Administration should review the requirements associated with the low income wage tax credit bill. The bill specifies that there should be a feasibility report given to council periodically as well as downloadable forms sent to employees with W2s. Please review whether the Administration is meeting these requirements and let Council president's office know if anything needs to be addressed.

The Revenue Department has met these requirements. A feasibility report was required by the bill and was submitted to the Council President. To address the W2 requirements, Revenue notified employers, provided them with a sample notice and posted the form to request the refund on the its website.

From Councilman Domb:

For a small store, mid-sized store and supermarket, do we have comparison of the percent of sales on sugary drinks to gross sales on all products?

The Revenue Department does not believe that the data needed to perform this analysis is available.

From Councilwoman Quiñones-Sánchez:

What Use & Occupancy Tax rate would we need to match the same amount of revenue projected to be generated from the Sugar Tax? Assuming no change in exclusions.

A rough estimate assuming the property assessment exemption is held constant at $165,300 results in a need to increase the tax rate by around 70% to about 2.1% from the current rate of 1.21%. The Department is conducting a more detailed analysis to determine the required tax rate if the value of the tax exclusion is held constant at $2,000. This analysis will be available in 1-2 weeks.

From Councilman Domb:

What would the economic impact be if we lowered the wage tax for Philadelphia residents but did not lower it for non-residents?

Narrowing the tax gap for both residents and non-residents helps make Philadelphia a more attractive place to work and live. Lowering the non-residential rate helps retain employees who commute into Philadelphia and may have other options to work outside of the city, closer to where they live. A 2008 report from Dr. Robert Inman provides more detail on the importance of lowering both rates:

LOCAL TAXES AND THE ECONOMIC FUTURE OF PHILADELPHIA: 2008 REPORT
http://www.phila.gov/taxpolicy/PDFs/localTaxesAndEconomicFuture.pdf

The Mayor's Task Force on Tax Policy & Economic Competitiveness from October 2009 also recommended continued reductions to both rates to lighten the burden on residents and commuting employees as well as encourage business growth and attraction. The residential and non-residential rates are highly correlated and so it is difficult to assess the impact lowering just one would have on job creation.
http://www.phila.gov/taxpolicy/PDFs/Thinking_Beyond_Today_Oct_2009.pdf

A financial model of the proposed scenario is included as attachment 2.

Please feel free to contact me with any questions you may have about the information provided in this response.

Sincerely,

Rob Dubow
Finance Director