Testimony on Revenue Bills 160170, 160171, 160172, 160173, 160174, 160175, 160176
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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 **160170, 160171, 160172, 160173, 160174, 160175, 160176**. I am joined at the table by Frank Breslin, Revenue Commissioner, and Anna Adams, Budget Director. While the Administration strongly recommends that Council approve each of these bills, my remarks will be directed toward Bill 160176.

Bill 160176 would authorize the imposition of a three cents per ounce tax on the distribution of sugary drinks to provide revenues for key initiatives that would promote education, safety and economic opportunity for Philadelphians. When fully implemented, the tax would generate over $95 million annually.

During the course of this process, several questions have appropriately been asked. Those questions include: why did the Administration choose this sugary drinks tax; how did the Administration project the revenue that a sugary drinks tax would generate; and is the sugary drinks tax a stable source of revenue. I will address each of those questions in this testimony.

First, why a sugary drinks tax? The Administration determined early on that the City's general fund did not have the resources to support three crucial initiatives: Pre-K, Community Schools and Rebuilding Community Infrastructure. Those initiatives will combine to dramatically improve children's education and safety as well as improve both the short- and long-term economic health of our neighborhoods. In order to reap the benefits of those initiatives, however, the City will have to invest a substantial amount. By the time the three programs are fully implemented, they will cost the General Fund more than $95 million annually. At the same, projected fund balances throughout the Plan are much lower than the amounts recommended by the Government Finance Officers Association and are projected to get as low as $37.7 million. Fund balances that low prevent the City from undertaking major new initiatives within its existing resources.

Several options for generating the necessary revenue are not possible because of pre-emption by the state while others would not generate the amount of revenue needed to support the initiatives. Given the City's current tax structure, it is plain that no existing tax would be an appropriate means of raising the recurring revenues necessary to realize these initiatives. The property tax had been increased four times in the previous five years, and so we did not want to even further increase the burden on households and businesses in the city. Multiple studies and two commissions determined that cutting wage and business taxes is essential to creating jobs and, as Philadelphia is already lagging behind the nation's job growth rate, we did not want to halt those reductions. The business tax exemptions provide significant value to small businesses. In fact, if the business exemptions were eliminated, more than 65,000 businesses with $100,000 or less in Philadelphia revenues, who would not have to pay any tax with the exemptions, would return to the tax rolls.

While I know some Councilmembers have expressed concern about the impact of the soda tax on jobs and small businesses, Wharton economist Robert Inman, among others, have found that the soda tax would have a far less adverse economic impact than increasing the wage, property or gross receipts taxes. Other taxes were so small that increases in them would have to be so substantial that they would likely have a dramatically negative impact. For example, in order to generate sufficient revenue, the Use and Occupancy Tax would have to be increased by 46%. The parking tax would need to be increased by 63%.

Reviewing the possibilities, we determined that a sugary drinks tax at three cents would generate enough revenue to support expanded Pre-K, Community Schools and Rebuild, as well as contribute to our pension fund.

That leads to the second question, which is how did we determine the amount of revenue that the tax would generate? After analyzing consumption data from the Rudd Center at the University of Connecticut as well as the results of over a dozen studies on price elasticity of sugary drinks, we projected $95 million in annual revenue once the tax is fully implemented. This projection takes into account a drop-off in consumption due to price sensitivity and non-compliance. We do expect the non-compliance rate to reduce over time as we have allocated $1.8 million in the Revenue Department's budget specifically for tax collection and auditing of this tax. We believe our projections are conservative on several counts. Our projections include an estimate of non-compliance of 10% in the first year with improvement over the five-year period. Most notably, our projections assume that the entire tax will be passed onto the consumer, which experts believe is highly unlikely given what we've seen in other areas where this tax has been implemented. If less of the tax is passed onto the consumer, we expect to see less of a drop-off in consumption.

That leads us to the third question, which is whether this is a stable source of revenue. As Council is aware, this is not the first time we have taxed consumables in such a way that is likely to reduce consumption. Both the liquor-by-the-drink and cigarette taxes were implemented to provide critical revenue for the School District, and both have provided the necessary revenues. Liquor-by–the-drink revenue has actually gone up in recent years. Additionally, when the sugary drinks tax has been implemented elsewhere, it has consistently hit revenue projections and, in some cases, exceeded them. In Mexico, soda sales, after an initial drop off, are actually on the rise. Finally, since our projections account for a drop-off in consumption that even our own Health Commissioner believes is high as well as several forms of non-compliance, we feel confident that this tax will provide sufficient revenue for these initiatives.

The Administration believes it is critical to provide recurring funding to Pre-K, Community Schools and Rebuilding Community Infrastructure. We also believe that the sugary drinks tax is the best vehicle for providing that revenue.

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