Philadelphia FORWARD
Positive Direction to Move Philadelphia Forward

No City Limits:

The Story Of Tax Reform In Philadelphia

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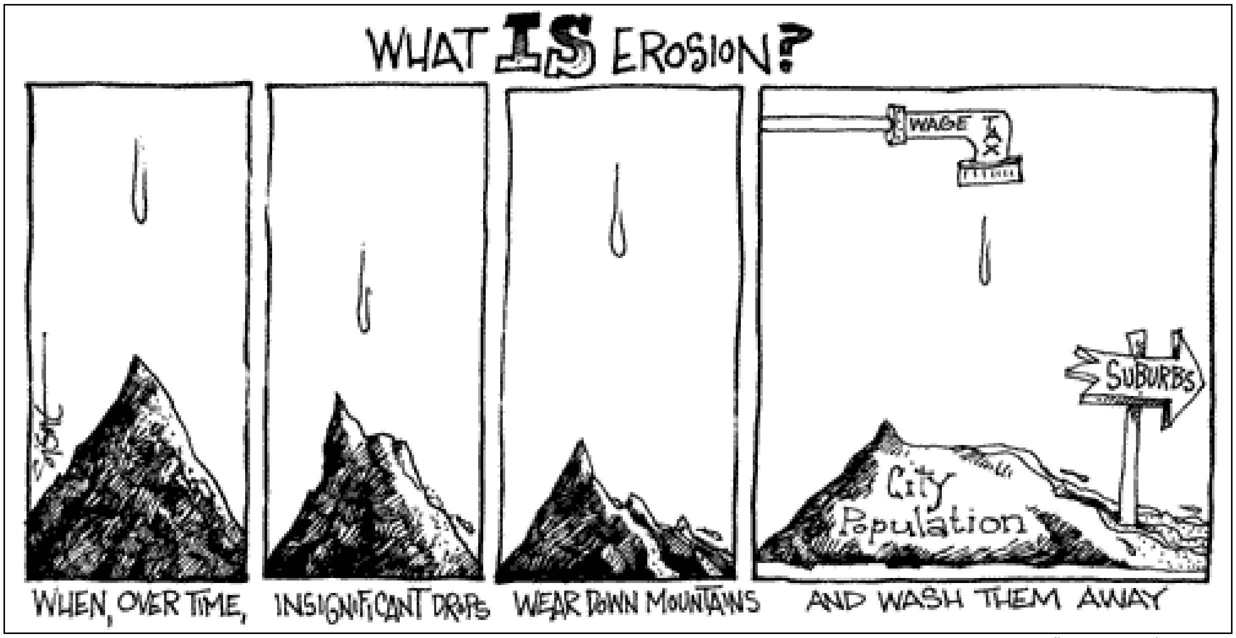
In the past decade, Philadelphia has progressed from the city with the nation's highest tax burden to the city with the most aggressive tax-reduction program and the most comprehensive plan for tax reform. This transformation is an inspiring story that proves that the power of a good idea is undeniable and that the force of public engagement and public leadership can make change happen.

The story of tax reform in Philadelphia is the story of an idea that — like many concepts that challenge the *status quo* — started off as a contrary notion, then built acceptance, and finally became conventional wisdom. The story of tax reform in Philadelphia, therefore, must begin when the idea of tax reform seemed immoderate, impractical, and impossible.



Signe Wilkinson – March 26, 2002

The Power To Tax Involves The Power To Destroy

In recent years, Philadelphia has embarked on a dramatic effort to transform itself from the nation's highest-taxed city to the city that is implementing a comprehensive plan for tax reform and reducing its taxes dramatically. In the coming decade, Philadelphia will significantly reduce the taxes that harm the city's efforts to attract and retain residents and employers. If the city fully embraces the pending plan for tax reform, its tax structure can be transformed from a significant barrier to growth into a force that fosters an unprecedented economic revival. But, before Philadelphia can move forward and realize that vision to become a city with no impediments to growth — a city with no city limits — it must undo years of tax policy that hold the city back.

Taxes in Philadelphia have contributed to an exodus of jobs and neighbors that rivals Biblical proportions. High and unfair taxes contributed to the loss of one-quarter of Philadelphia's population and employment base since 1950. The decline of the city's tax base, combined with political decisions to maintain and expand city spending, created a downward spiral of tax increases and continued job and resident loss, threatening the city's very sustainability.

The problems associated with taxation in Philadelphia are well documented. Philadelphia imposes higher taxes on residents and employers than surrounding jurisdictions and competitor cities. Perhaps more important than how much is taxed, is *what* is taxed. Philadelphia is set apart in a bad way by taxes on business income, and resident and commuter wages, which surrounding suburbs and other cities generally avoid. Philadelphia's tax on resident income is more than 400 percent higher than the average rate in large U.S. cities and in surrounding Pennsylvania suburbs. Philadelphia's tax on business gross receipts is more than 300 percent higher than the average rate in large U.S. cities and more than 500 percent higher than surrounding Pennsylvania suburbs. The city's tax on business income is perhaps incalculably higher than other cities and suburban jurisdictions as such a tax is nearly unheard of at the local level. Survey after survey — conducted locally or nationally — confirm that Philadelphia's taxes on residents and businesses are the highest or among the highest in the nation.

In addition to the oppressive nature of the city's taxes, their unfairness causes confusion and consternation. The tax on wages is not progressive. Different types of firms pay different business tax burdens and all firms must pay taxes on receipts even if they do not make a profit. Finally, Real Estate Taxes are imposed in such a manner that similar properties are treated differently in a systematic way that forces owners of low-valued properties to pay higher taxes (in terms of a percentage of true property value) than owners of high-valued properties.

High and unfair taxes contributed to the loss of one-quarter of Philadelphia's population and employment base since 1950. The decline of the city's tax base, combined with political decisions to maintain and expand city spending, created a downward spiral of tax increases and continued job and resident loss, threatening the city's very sustainability.

Certainly, taxes are only one part of one side of a complex equation that balances the costs of living and doing business in one location against the benefits individuals or employers derive from being in that location. But two factors increase the significance of tax policy changes in terms of their ability to affect location decisions. First, unlike most other variables in the cost-versus-benefits equation (including amenity factors like quality of schools, crime rate, and intangible impressions of neighborhood desirability on the benefits side and non-monetary impacts of regulatory burdens, transportation issues, and labor quality on the costs side) taxes appear as a calculable number that affects every bottom-line decision for an individual or employer considering a move. Thus, the cost of taxes may eliminate an otherwise desirable location from consideration in a relocation decision *before* any other factor can be entered into the equation. Perhaps most important, tax policy changes may be the only governmental initiative that can instantly alter market conditions to create the broadest possible reaction in the marketplace. High-quality amenities on one side of the equation can offset high taxes on the other side of the equation, but initiatives to improve schools or fight crime may require years of work and may be only marginally effective in changing the perception of the benefits of being in portions of the city. However, a change in tax rates instantly increases or decreases the costs of living and doing business for all taxpayers. Changes to tax policy fundamentally reset the cost-versus-benefits equation for all taxpayers. This makes broad-based tax reform one of the most important policy tools for local governments in terms of increasing or decreasing the desirability of their jurisdictions as a place to live or do business.

Confronting The Problem

The troubles caused by Philadelphia's tax structure did not appear overnight. Decades of tax-policy decisions led to the tremendous problems associated with the Philadelphia tax structure. When Philadelphia became the first city in the nation to impose a local tax on wages in 1939, the idea was hailed as progressive and forward-thinking. To avoid increases in other taxes, the city implemented new taxes on business receipts in the 1950s. When the city decided at various times in future decades to increase reliance on its tax on wages and its tax on business activity, the moves were certainly more politically palatable than increases to the tax on real estate. Taxes on real estate fall upon city residents while business and wage taxes allowed the burden to be shared by commuters and non-city corporate interests.

The Wage Tax was originally imposed as a temporary measure, but by the late 1960s, the Wage Tax was generating more tax revenue for Philadelphia than the Real Estate Tax, making the levy the city's most important revenue stream. Taxes on general business receipts grew so high that the business community cried out for a broadening of the tax base in the mid-1980s. The tax was then revised as a reduced rate on business receipts along with a new, onerous levy on business income. All the while, the city's population and job base dwindled.

Decades of tax-policy decisions led to the tremendous problems associated with the Philadelphia tax structure.

The idea that the self-inflicted wound of poor tax-policy choices was hurting the city, and the notion that changes in those policies could help the city grow, were not realities that Philadelphia was prepared to confront until the end of the 20th century. Philadelphia had always been the economic engine for the region, and policy makers believed that they could afford to tax individuals because their jobs were located in the city and could even tax firms for the privilege of doing business in Philadelphia. Since other older, eastern cities witnessed similar population declines, it was easy to say that a host of other factors — a population shift to the sun-belt, a preference for suburban living, the flight of jobs overseas, racism — were responsible for Philadelphia's losses.

While those factors beyond the city's control certainly contributed to the ongoing loss of population and jobs, the 1990s would show population gains in other older, eastern cities and urban renaissances across the nation. According to the U.S. Census, Philadelphia lost more than ten percent of its population between 1980 and 2000 and more than four percent of its population between 1990 and 2000, but Boston grew consistently during both decades. Similarly, New York City grew from 1980 to 2000 and Chicago grew during the 1990s. Clearly, all similarly situated cities were not doomed to decline.

Without a doubt, the issue of taxation has always been a source of frustration to taxpayers and a topic of policy debate at the international, national, state, and local levels. Certain thinkers discussed the notion of addressing the issue of taxation in Philadelphia in the last half of the 20th century, but the talk produced little in terms of actual change. In the late 1970s, the Mayor's chief economist warned of the dangers of increasing city taxes, but was fired before his efforts altered city policy. Suburban Wage Tax payers agitated to eliminate the levy on commuters, but the tax persisted although a differential between the rates for residents and non-residents was established.

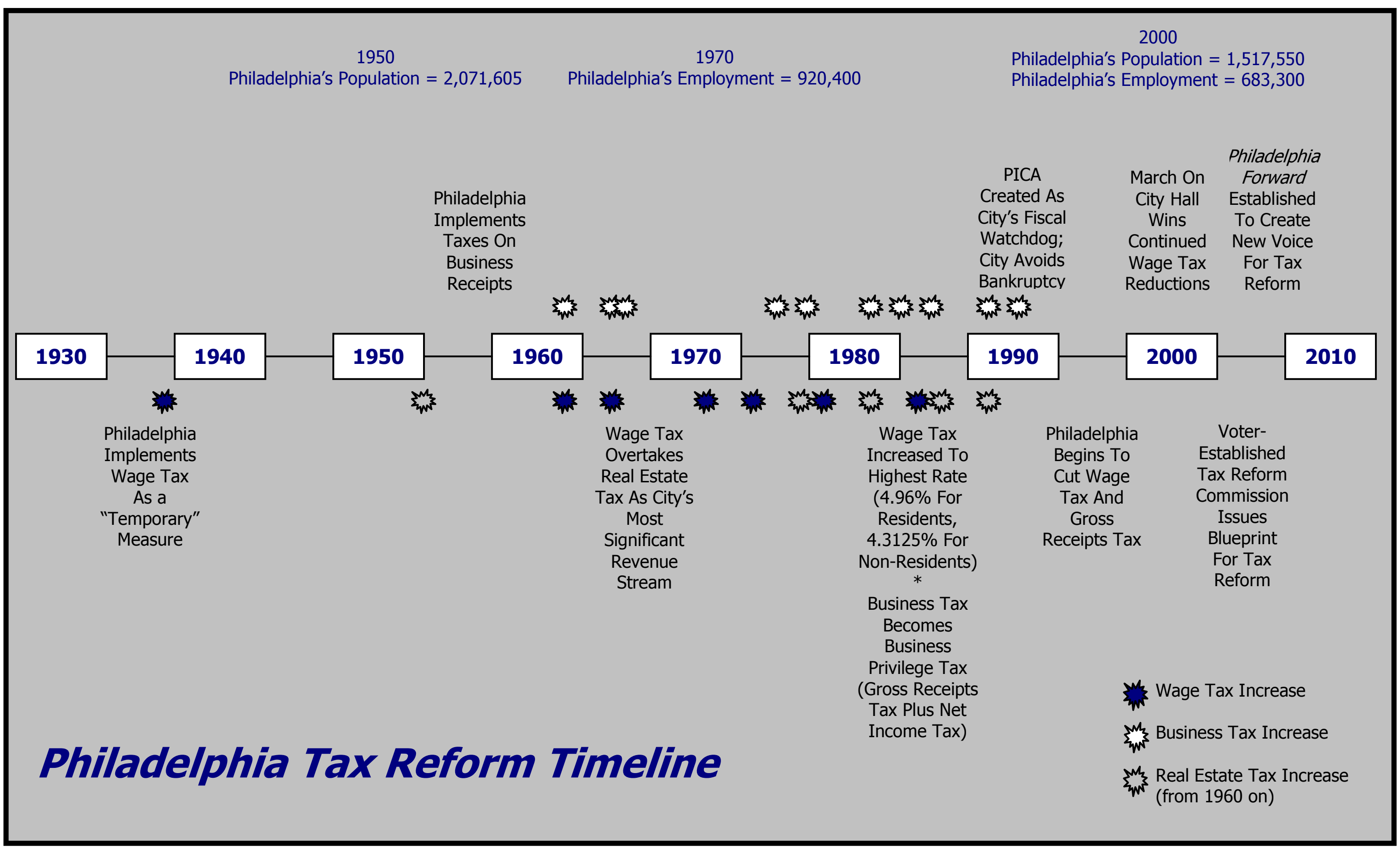
University of Pennsylvania Professor of Public Policy and History Ted Hershberg was instrumental in one notable effort to advance the discussion surrounding tax reform in the 1980s. In many roles, including leading his Center for Greater Philadelphia, Hershberg convened conferences that brought together the region's influential civic, business, and political leaders to discuss regional issues. Taxation, specifically the city's tax on the wages of residents and commuters, emerged as a serious regional issue. But efforts to actually achieve tax reform, including a notable state-wide initiative that would have included city tax changes in a broad plan to address taxes in Pennsylvania, fell short of success.

As firms and families demonstrated their mobility, and as many decided to move beyond the city limits to avoid high and unfair taxes, anecdotal evidence about the damaging effects of Philadelphia taxes was plentiful. However, serious scholarly evidence on the potential benefits of tax reform and empirical evidence that changes in the tax rate might create positive market reactions were largely absent. Advances in econometric research would soon fill that void.

Research Breaks New Ground

In the late 1980s and early 1990s, research performed by Robert Inman of the Wharton School of the University of Pennsylvania questioned whether Philadelphia had actually reached the point where tax increases would result in revenue decreases and where tax decreases could actually generate additional revenues. Inman's ground-breaking research suggested that high taxes were solely responsible for a significant portion of the city's overall job loss. By Inman's calculations, the Wage Tax alone had been responsible for the loss of as many as 130,000 jobs between 1965 and 1987. He concluded that tax reductions would have the opposite effect and create job growth.

A similar question had been debated at the national level, based on the premise that reduced national taxes would increase the incentive to produce and lead to economic expansion and a "supply-side effect" that would actually increase tax revenues. That idea may be questioned and, indeed, has been discredited in certain economic circles. However, the emergence of a body of scholarly literature leading up to the 1990s and extending throughout the decade — performed locally in Philadelphia and also by researchers across the nation — demonstrated convincingly that given the highly mobile nature of individuals and employers, local tax rates are increasingly important to firms and families and their location decisions within smaller geographic areas. Given the option between locating in a jurisdiction with high tax rates and a neighboring jurisdiction with low tax rates, it is clear that increasingly mobile employers (and many individuals) will choose to avoid high tax burdens and "vote with their feet" for the low-tax location. Put most simply, while it is not clear that lower national taxes will encourage more production, it is very clear that many firms and families are willing to move a few miles within a region to avoid high local taxes.



Philadelphia Tax Reform Timeline

Signe Wilkinson – March 1, 2002

Fiscal Crisis As Tax-Policy Intervention

Perhaps the story of tax reform in Philadelphia can be likened to an addict's fight against compulsion. The need for tax revenue to fund services had caused city officials to increase tax rates to a level that was eroding the tax base. Between 1960 and 1990, Philadelphia increased its tax on wage income six times, raising the rate from 1.5 percent to 4.96 percent for residents (and 4.3125 for non-residents); increased its tax on business gross receipts from .3 percent to .5 percent before replacing the tax with a tax that eventually became a .325 percent tax on business gross receipts and a 6.5 percent tax on business net income; and increased its tax on real estate ten times, raising the rate from 3.66 percent to 8.264 percent. Other minor taxes were implemented and increased as well.

As tax increases helped chase taxpayers from Philadelphia, the city increased taxes to maintain revenue levels in a vicious spiral that helped contribute to the city's flirt with bankruptcy in the late 1980s and early 1990s. At the depth of the crisis, the city projected a budgetary deficit of hundreds of millions of dollars and Philadelphia endured a period when officials debated which bills it could afford to pay, municipal employees wondered if they would receive salary checks, and the city's credit sank so low as to virtually prevent borrowing.

It was then that the city leaders could finally admit that Philadelphia's reliance on taxes had made it all but powerless to act in a way to create positive change. High taxes were necessary to maintain city spending levels, but those spending levels were not creating amenities that were of high enough quality to give firms and families reasons to remain or locate in Philadelphia, given the high cost of taxes. Once it was possible to admit the addiction, it was also possible to take the first necessary steps toward recovery.

Fiscal Oversight

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In 1991, the creation of a new state financial oversight authority established a new long-term framework for considering city spending based on reasonable revenue projections that forced the city to live within its means. The oversight of the Pennsylvania Intergovernmental Cooperation Authority (PICA) helped the city improve fiscal management and budget responsibly to give Philadelphia access to capital markets, provide the city with a longer-term outlook for its fiscal well-being, and avert financial catastrophe. The city would then have to create a Five-Year Financial Plan, subject to PICA approval, to give a reasonable assurance that it had a fiscally sound plan to raise and spend into the future. Perhaps most important, the political decision was finally made to solve the city's fiscal crisis not by looking to raise revenues through tax increases, but to work diligently to reduce expenditures. As part of the solution to the city's fiscal crisis, PICA borrowed to finance the city's deficit and a local sales tax was imposed in Philadelphia to generate new revenues for the cash-strapped city. It would be the last time Philadelphia increased a tax for anything other than a dedicated use.

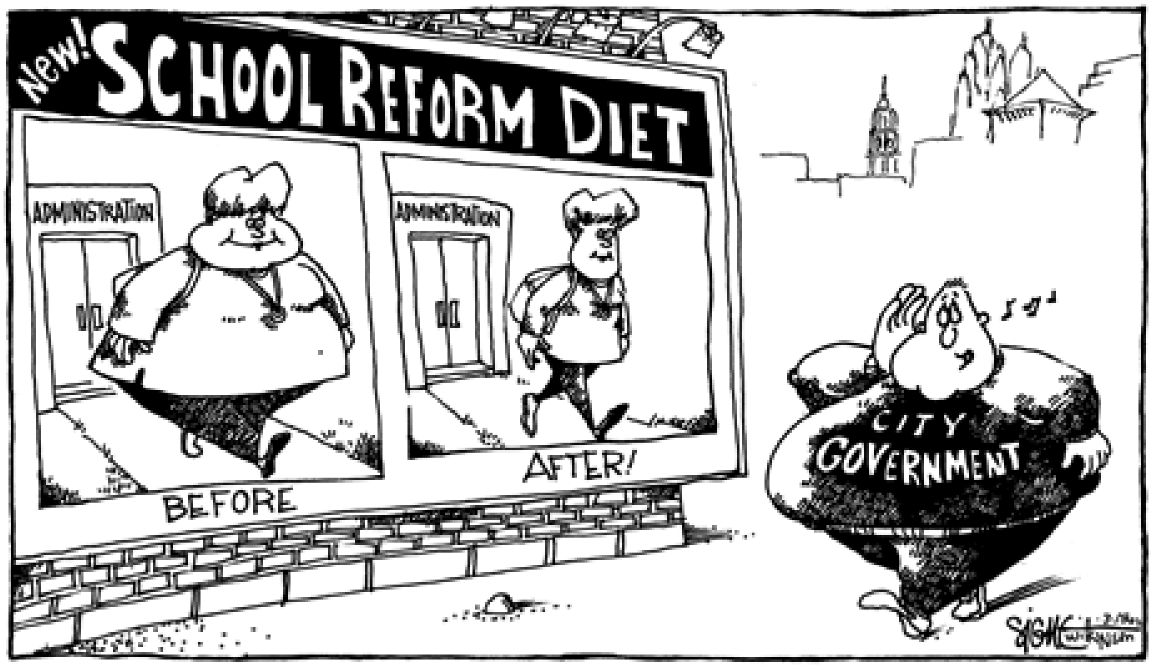
As a candidate for Mayor in 1991, Edward G. Rendell would note Philadelphia's fondness for increasing taxes — including 19 separate tax increases in the previous decade — and joke that the only reason to increase taxes further would be to fund efforts to widen the streets to accommodate the traffic of those leaving the city. In presenting the first budget crafted by his administration in 1993, Mayor Rendell gave a televised address to explain how the city's leadership would work to emerge from its fiscal crisis. He looked into the camera and stated that Philadelphia would raise taxes. After a slight pause, he added that he was only kidding. The idea that the city could afford to raise its taxes had become comical.

Using the oversight from PICA to his advantage, Mayor Rendell was able to reduce city spending through budgetary discipline and favorable terms negotiated in agreements with the city's unionized employees. City Council President John F. Street and the members of City Council embraced the efforts to curtail spending and, together, the elected leaders of the City of Philadelphia were able to turn the huge projected future deficits from the fiscal crisis into growing surpluses. All without another tax increase.

Decreasing Taxes

In 1994, City Controller Jonathan A. Saidel proposed a next step: a dramatic Wage and Business Privilege Tax cut to improve the city's competitiveness. Using Inman's econometric modeling to demonstrate how tax cuts would help staunch the loss of city jobs, Saidel's proposal demonstrated that the cost of tax reductions to the city budget would not be acute, since the cuts would attract and retain jobs to expand the tax base.

By 1995, city leaders decided it was possible to take that next step to actually begin the process of reducing Philadelphia's reliance on the taxes that were contributing to the city's decline. The change in perspective is striking. Where, just years before, the city had consistently responded to increased demands for spending with tax increases, Philadelphia was living within its means and contemplating reducing tax rates in an effort to expand the tax base.



Signe Wilkinson – March 18, 2002

The First Cut

Beginning in 1996, Mayor Rendell, with support from Council President Street and members of City Council, focused the city's tax-reduction efforts on the Wage Tax and the gross receipts portion of the Business Privilege Tax. Both were logical targets. Because the Wage Tax was higher than surrounding jurisdictions and competitor cities, residents were tempted to find work and a residence outside the city, and those Philadelphia employers who had to pay a premium to employees to offset the levy were tempted to relocate or avoid locating in the city. The gross receipts portion of the Business Privilege Tax was particularly infuriating to neighborhood business owners operating with small profit margins who had to pay the then-.325-percent tax on Philadelphia sales even if they were making little or no profit.

Additional positive changes were made based on technical recommendations from a Select Committee on Business Taxes, chaired by City Council member Happy Fernandez and tax attorney Sheldon Bonovitz, to improve the fairness of the Business Privilege Tax. That committee — which was charged with making recommendations to streamline and restructure business taxes, paying particular concern to the impact of taxes on small business — produced its report in February 1993. Many of its recommendations formed the foundation for Philadelphia's first tangible step toward tax reform. After years of talking about how taxes were driving residents and employers from Philadelphia, the city's elected leadership was finally doing something to address the problem.

Evaluating The Cuts

These initial cuts were modest, even when they were projected out as a promised cumulative 7.0 percent cut to the Wage Tax and a cumulative 18.0 percent cut to the gross receipts portion of the Business Privilege Tax over the life of the city's Five-Year Financial Plan. But combined, they represented a cumulative five-year reduction of $272 million in future tax revenues premised on the notion that the changes would improve the city's ability to retain and attract residents and employers and ultimately expand the tax base and future tax revenues.

Some argued that the city should be more bold with tax cuts and that the small proposed cuts were little more than a symbolic act. Others argued that any cuts would compromise delivery of vital city services. Advocates for various city services continued to demand increased spending and the needs of the citizenry remained such that the city could have doubled or tripled spending without being able to solve all of its woes. But, contemporary performance measures indicated that the city was able to truly accomplish more with less and increase satisfaction with municipal services across the board. The modest reductions were put in place and continued in subsequent years. The policy change could then be evaluated and debated.

While the city was embarking on its tax-reduction plan, the national economy was growing dramatically. Still, the national economy had been growing since 1992 and the Philadelphia regional economy had been growing since 1993, but Philadelphia finally saw an increase in jobs only after it initiated its tax cuts. Despite the cuts, published accounts of city service-delivery efforts showed improvements across all areas of government. Tax revenues increased significantly and, perhaps most important, the gap between Philadelphia employment growth and national growth declined dramatically. The idea that Philadelphia should reform its tax structure was no longer just a notion that could be evaluated in theory. It was a policy that could be objectively analyzed, and it was a policy that was having a positive effect.

Despite the cuts, published accounts of city service-delivery efforts showed improvements across all areas of government. Tax revenues increased significantly and, perhaps most important, the gap between Philadelphia employment growth and national growth declined dramatically. revenues.

During the next few years, the voices calling for more substantial tax reform grew louder. Armed with data from the city's newfound experience with a tax-cut program, and emboldened by an expanded body of literature finding strong links between local tax rates and location decisions, those voices could demonstrate more clearly the benefits of tax reform as a policy choice.

A decade removed from its fiscal crisis, the City of Philadelphia had long since rejected the idea of increasing its tax rates as a way to generate new revenues. Budgetary discipline and sound fiscal management kept city expenditure growth in check while job growth — fueled by tax reductions and the expanding national economy — was adding to a city fund balance surplus that would reach nearly $300 million in 2000. Still, the city's long-term population loss continued and the city's economic performance continued to lag behind neighboring suburbs and competitor cities. Calls for more significant tax reduction increased and those calls received more attention as they became a rallying cry for candidates who jockeyed for position in the 1999 race to succeed Rendell as Mayor.

Tony Auth – 1999

New Mayor, Same Tax Problems

When Ed Rendell ran for Mayor in 1991, the city faced huge deficits and it was a bold statement for a candidate to reject tax increases. During the 1999 campaign, the city boasted a large fund balance surplus and candidates bragged about how they would continue the city's tax-cut program, enhance it with subtle changes, or even dramatically increase its pace. At the outset of the race, the City Controller's Office released the book, Philadelphia: A New Urban Direction (published by Saint Joseph's University Press, 1999), to help shape the debate about the city's future. In the book, the Controller's Office presented new research about the high cost of high taxes and used new tools to model potential tax reductions and show the positive impact of different tax-cut scenarios. This information was often cited by candidates in position papers and speeches as the campaign wore on. After the party primaries were decided, the 1999 race matched former Council President John F. Street, who favored continuing tax reductions along the lines of the modest tax cuts he had helped pass into law, against businessman Sam Katz, who presented a detailed plan to implement more aggressive tax cuts in the future.

John F. Street was elected Mayor of Philadelphia in 1999, winning a close race by about 10,000 votes out of approximately 400,000 cast. The narrow victory settled the Mayor's race, but it did not end the tax debate. Tax reform advocates were now able to present new math and new numbers to back their call for additional tax reductions. More and more major policy papers and presentations examined the damage caused by Philadelphia's high taxes and made the case that tax reform should be a policy priority for the city.

New Voices Call For More Change

In April 2000, David Thornburgh, Executive Director of the Pennsylvania Economy League, Eastern Division, and Paul Levy, Executive Director of the Central Philadelphia Development Corporation, made a presentation that addressed the calculus behind reducing the Wage Tax that showed how significant reductions could be funded by positive reactions in the marketplace. After reviewing the devastation that the Wage Tax wrought upon the local economy, Thornburgh and Levy stressed that retaining and attracting residents and jobs could generate significant revenues to the city, while improving employment prospects would help reduce the need for city spending. The expanded revenues and reduced costs could offset nearly all of the short-term revenue losses the city would incur by reducing the Wage Tax rate.

This presentation stressed that reducing tax rates in Philadelphia was an idea that not only made sense in terms of improving the city's competitiveness, but an idea that had tremendous appeal in terms of the city's future fiscal health. Reducing the Wage Tax could keep jobs and residents (along with their tax dollars) in Philadelphia and reduce the need for city spending related to the negative effects of joblessness and population decline. If the Wage Tax could be reduced, new tax revenues and reduced city spending could help "pay for" tax reductions.

A PICA White Paper issued just weeks before the Thornburgh/Levy presentation addressed the opportunity cost of city economic development spending versus additional tax cuts. While the city was modestly trimming the taxes on wages and business gross receipts, it was also more aggressively expanding the use of tax-increment financing, tax abatements, grants and loans to firms, and tax-free zones that focused significant tax relief on individual firms or certain small areas of the city. The White Paper concluded that it was desirable to improve the city's ability to evaluate such policy options to best leverage expenditure of scarce city resources. Without an ability to evaluate the results of a policy choice, the debate on whether to reduce taxes or pursue other initiatives would hinge on political whim instead of informed decision-making.

Tax Reform On The Public Agenda

By the fall of 2001, the city would have two new important reports that would take this policy debate to a new, higher level. The Metropolitan Philadelphia Policy Center, a collaboration of the Pennsylvania Economy League, 10,000 Friends of Pennsylvania, and The Reinvestment Fund, produced *Fight (Or) Flight*, an accessible and digestible tome that cataloged the Greater Philadelphia Region's strengths, weaknesses, and challenges for the future. The widely circulated dissertation told the story of the enormous negative effect the local tax structure has had on regional growth and drove home the imperative of serious tax reform.

The Office of the City Controller then provided a comprehensive analysis of Philadelphia's tax structure that explained it for laypeople, catalogued the negative impact of taxes on the city, and demonstrated how the city's tax structure varied from competitor jurisdictions. The Controller's *Tax Structure Analysis Report* offered an ambitious plan for tax reform that addressed a wide range of problems with the tax structure. The report proposed significant business tax reductions and reforms to eliminate disincentives for businesses to stay in Philadelphia and to improve the city's ability to retain and attract jobs; a shift of tax burden from the Wage Tax to the Real Estate Tax to bring the city more into line with competitor jurisdictions and reduce the damaging levy on income; a shift within the Real Estate Tax that would reduce the tax on structures and increase the tax on land to encourage development and discourage speculation; and future Wage Tax cuts that would be fueled by economic growth.

Most important, for the first time, the Controller's Office showed how "funding" tax reform would be possible using new econometric analysis to show how future tax collections would respond to tax reductions. Now years into Philadelphia's successful experiment with tax cuts, researchers could build upon earlier theoretical examinations of the effects of taxes on the Philadelphia economy with actual data that showed how the economy responded to changes in tax rates. As a result, for the first time, it was possible to assign a worth to tax reform that could show credentialed estimates of how economic growth would return a portion of the "cost" of tax reduction so that a dollar of tax cuts would actually result in less than a dollar of lost revenues for the city treasury. With estimates that growth could (depending on the tax considered for reduction) offset 22 to 56 percent of the reductions in the years immediately following tax reductions, the idea to dramatically reduce Philadelphia taxes was suddenly compelling — not only to those who wished to pay reduced taxes — but to those looking to ensure that Philadelphia enjoyed balanced budgets and a sound fiscal future.

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Just years earlier, tax reform may have been an issue that was oft discussed, but about which not much was done. Now, Philadelphia was doing something about its high and unfair taxes and talking about even more comprehensive change. Outreach by the Controller's Office and the Metropolitan Philadelphia Policy Center helped spread the message of the need for change to civic groups, business organizations, and individuals across the region. The complex tax structure and its negative effects on Philadelphia were laid out so that interest could expand beyond policy wonks and tax professionals. Suddenly, the general public was taking a serious interest in the subject of tax reform and letting their elected representatives know that tax reform should be a priority for Philadelphia. The local media responded with stories, features, and columns that made tax reform a prominent topic of current-events discussions as local editorial boards hammered home the message that the time for comprehensive tax reform had come.

Signe Wilkinson – February 1, 2002

A Switch In Time

While some certainly still questioned whether tax reform would take scarce budget dollars away from necessary programs, public opinion as expressed by editorial boards, community groups, think tanks, business associations, and others had joined the call for serious action to fix Philadelphia's tax problem. It was clear that high and unfair taxes were hurting the city's ability to attract and retain residents and employers and it was more clear every day that putting off tax reform would just be a recipe for continued decline.

Data from the 2000 Census showed that Philadelphia was growing older, poorer, and less populous as a city. While other cities were attracting new immigrants and college graduates, Philadelphia was losing ground. While the national expansion had created jobs across the nation, Philadelphia ended the 1990s with fewer jobs than when the decade started. While office towers were built across the region, Philadelphia's total office space square footage remained flat during the 1990s. The slow downward spiral of losing jobs, young people, and middle- and upper-income residents was clearly a problem that needed serious attention.

Stop The Cuts?

In the winter of 2001, Mayor John F. Street announced a shift in tax policy as part of his budget address. It was not a shift that pleased tax reformers. The first budget created by the Street administration proposed halting the Wage Tax cuts and accelerating the cuts to the gross receipts portion of the Business Privilege Tax. As a result, some city taxes would continue to decrease, but the total amount of tax reduction over the next five years would not be as great as had been outlined under the previous Five-Year Financial Plan. According to the city administration, Philadelphia could not afford to continue to reduce its taxes at the current pace. The reversal in policy was stunning in its bold opposition to the emergent conventional wisdom.

The body of evidence that Philadelphia needed more significant tax reform was growing. The number of credentialed organizations and respected voices across the city supporting more significant tax reform was growing. But, the message from the Mayor's Office was that Philadelphia would not only not receive more tax reform in the future, it would receive less than was already expected. One may have anticipated that the public would react negatively to this news, but it was impossible to gauge how this reversal would create ignite civic passions and give a tremendous boost to the push for tax reform.

Philadelphia operates under a strong-mayor form of government. That is certainly true when considering the powers granted to the city's chief executive by the City Charter, but it is most true when considering the fact that the Mayor is the city's most powerful locally elected figure. The Mayor of Philadelphia wields the most influence and speaks from the city's biggest bully pulpit. Other elected officials and influential individuals and groups can affect the direction of the city, but the Mayor sets that direction and uses an incredible assemblage of governmental and political powers to move the city in the direction he or she chooses. When the Mayor announces a change in tax policy, one hardly expects the city to get anything but a change in tax policy.

In a city with a citizenry not generally associated with issues-oriented passion, the next few months would be a surprise. Perhaps an angry reaction might be expected about the closing of a firehouse or a proposed highway through a residential neighborhood. But it is doubtful that any civic observers could have predicted that tax reform would become a rallying cry for significant protest and a serious challenge to the power in a strong-mayor city.

The decision to change the pace and focus of the city's tax-reduction efforts was endorsed by a newly formed Mayor's Council of Economic Advisors and backed by rhetoric that suggested that such a move would be more beneficial to city economic development efforts. But the organizations and individuals calling for more significant tax reform were not persuaded.

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Public Response

Just weeks after the Mayor's announcement that Wage Tax cuts would be halted, hearings before City Council addressed the findings of the Controller's *Tax Structure Analysis Report* and attracted dozens of experts, employers, and residents who came forth to present testimony on the negative effects of taxation in Philadelphia. They came from Center City office towers, row-house communities, and academic ivory towers to echo the call for more tax reform and to insist that the Wage Tax had to be the focus of tax-reduction efforts. The parade featured residents from Olney to South Philadelphia, employers from West Philadelphia and Port Richmond, community organizations like the University City Community Council and the Center City Residents' Association, business groups including the Greater Philadelphia Restaurant and Purveyor's Association and the Greater Philadelphia Hotel Association, and nationally known academics and experts. The day's worth of testimony was an exhausting and comprehensive indictment of the problems with the city tax structure.

The local media now offered extensive coverage of tax issues and the growing fight over how to proceed with tax reform. City administration officials painted dire pictures of how services would have to be slashed to make room in the budget for additional cuts. Reformers countered that the city not only *could* afford additional cuts, but that the city's dismal prospects for growth meant that the city truly could not afford *not* to enact additional cuts.

Banner headlines, stories, and editorials filled with macho imagery turned the complex and dry subject of tax reform into a compelling serial novel that unfolded with a new twist almost daily. The tabloid-style *Philadelphia Daily News* made tax reform a cover story day after day. Soon, the "People Paper" filled its covers — often used to titillate readers with far more sensational pictures — with images relating to the tax reform debate. One cover offered a man screaming next to the caption, "THE TAX WE REALLY HATE," another showed a chainsaw cutting through the city budget paired with the text, "THE MAYOR SAYS HE CAN'T AFFORD TO SLASH THE WAGE TAX. BUT…**IT CAN BE DONE**," still another showed the Mayor in a photo that was distorted to shrink the size of his head to match the headline, "HE'S FEELING THE PINCH." The *Daily News* even printed suddenly fashionable t-shirts emblazoned with the image of an editorial cartoon that showed a dog representing the Wage Tax chasing a city resident to the suburbs. The more-staid *Philadelphia Inquirer* offered resolute editorials and pointed commentaries supporting tax reform. One editorial cartoon featured a clearly suffering man carrying a care-free Mayor Street who comments, "He's not heavy…he's my taxpayer."

Taking It To The Street

Emboldened by the popular backing and editorial board support for more tax reform, City Council member Michael Nutter, joined by members Frank DiCicco and James Kenney, introduced a bill to continue Wage Tax cuts into the future. A total of twelve Council members — a veto-proof majority — co-sponsored the legislation. Battle lines were drawn in City Hall between those pushing for additional Wage Tax cuts and those supporting the Mayor's plan to halt the Wage Tax cuts.

Months after the release of his *Tax Structure Analysis Report* and his subsequent efforts to promote its recommendations, Controller Saidel hosted a gathering in March 2002 of leaders representing business groups, community associations, and other reform-minded organizations. Representatives from the Greater Philadelphia Chamber of Commerce, the Midlantic Business Alliance, the Greater Philadelphia Association of REALTORS, the Philadelphia NAACP, the Building Owners and Managers Association of Philadelphia, and other organizations expressed a common frustration with the city administration's policy shift. More important, an action agenda coalesced that would unite and expand the group into a coalition to promote tax reform.

Charles Pizzi, then President and Chief Executive Officer of the Greater Philadelphia Chamber of Commerce, stepped forward to lead the effort to specifically illustrate the need for Wage Tax reductions and advocate for the restoration of Wage Tax cuts in future city budgets. Soon, a Chamber of Commerce not generally known for its aggressive advocacy of issues in opposition to the city's most powerful political leader was spearheading a spirited fight for change. With strong support from Chamber of Commerce Chair Judith von Seldeneck, Pizzi and the Chamber were soon hosting organizational meetings, orchestrating letter-writing and phone-call campaigns, conducting polls and releasing polling data, sponsoring full-page ads in citywide newspapers, and making written and personal appeals to the city's elected leadership on behalf of Wage Tax reduction.

In the media, stories, features, and editorials chronicled and promoted the push for reinstituting Wage Tax reductions. In community organizations and business groups across the city, tax reform became a topic of debate and emerged as a major priority. In the state capital, legislators proposed legislation to force the city to further cut its Wage Tax. Finally, the emergent movement moved out of the meeting rooms, boardrooms, and back rooms, and spilled out into the streets.

On April 8, 2002, the push for Wage Tax cuts reached a loud crescendo as a "briefcase brigade" of an estimated 1,000 Chamber of Commerce leaders, politicians, office workers, tax coalition members, and everyday Philadelphians marched up Broad Street to make a noisy and public case for their cause. City Council heard the message and passed legislation to reverse the Mayor's decision and continue Wage Tax reductions into the future. Besieged by Council's action, beset by growing public outcry, and cornered by cover stories and headlines screaming about Wage Tax reduction in the city's daily newspapers, the Mayor dropped his opposition to the cuts and signed the bill into law in a public ceremony that seemed to heal any lingering negativity from the clash over Wage Tax cuts.

The incredible battle over the Wage Tax taught two important lessons. First, despite the cliché, it was clear that one *could* fight City Hall — and win. Properly coordinated pressure could result in positive government action. Second, with apologies to Winston Churchill, never had so many worked so hard for so little — and been so happy about it. The coalition that continued the Wage Tax cuts only won the restoration of cuts that most agreed were insufficient to begin with. The push for tax reform in Philadelphia had more work to do in the future.

Lost in many of the colorful *Daily News* covers and bold *Philadelphia Inquirer* headlines, and in the stories detailing the blow-by-blow accounts of the legislative maneuverings in City Council, was the emergence of new tools that would provide new evidence to support the case for tax reform. As the fight over continuing Wage Tax cuts raged, the Pennsylvania Economy League, Eastern Division released a report titled *Philadelphia Tax Rates And Their Relationship To Tax Bases And Tax Revenues*. The mild-mannered title of the report masked its significance.

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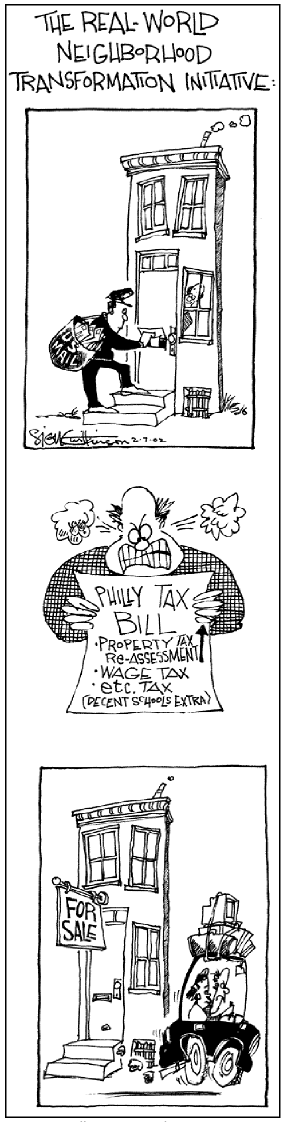
Building on the work previously done for the *Tax Structure Analysis Report*, Econsult Corporation created a model for the Pennsylvania Economy League to answer questions like, "If we cut taxes, how much would the city economy grow in terms of wages, jobs, and property values?" and "How long would it take to respond?" The statistical model projected into the future the statistically strong relationships between tax rates and economic growth based on Philadelphia's share of the national economy and estimated future wages, property values, and city tax revenues. This tool could demonstrate — in the most compelling manner to date — how the city faced continued future decline without additional tax reduction and how cuts to the taxes on wages and business activity could spur significant increases in property values in addition to job growth. Most important, the model provided a tool with which one could compare alternate tax-reduction strategies or compare the costs and benefits of tax reform with those of alternate policies. The data and information provided by this model helped make the case for additional Wage Tax cuts in the weeks leading up to the march on City Hall, but it would become a more important policy tool as the push for tax reform moved ahead.



Signe Wilkinson – February 7, 2002

Real Estate Taxation In The Spotlight

The battle to restore Wage Tax cuts ended in the spring of 2002, but the push for comprehensive tax reform was clearly not over. All of the attention paid to the issue of Philadelphia's taxes and their damaging impact on the city's ability to retain and attract jobs and residents expanded public awareness and solidified the place of tax reform on the public agenda. Capitalizing on this support, Controller Saidel continued to promote the elements of his ambitious plan for tax reform, supporting legislation to reform city business taxes and engaging stakeholders in further analysis of the impact of Land-Value Taxation, the policy that would reduce taxes on buildings and increase taxes on land to encourage development and discourage blight. Council member Jannie Blackwell would later hold public hearings on Land-Value Taxation. A chorus of other politicians joined the effort by pushing measures to reduce tax rates and increase tax fairness. In the ensuing months, Council members Blondell Reynolds Brown, Wilson Goode, Jr., and Frank DiCicco would push forward legislation to reform elements of business taxation in Philadelphia. Progressive leaders led by Council member David Cohen advocated for Wage Tax cuts targeted to the city's low-income residents.

The push for tax reform paused with the summer legislative recess, and advocates and opponents alternately feared or hoped the break would dampen enthusiasm for additional tax reform fights. But just as Mayor Street's call to end Wage Tax cuts sparked an outpouring of protest during the previous winter, a bureaucratic initiative from a previously anonymous government agency created new outcry during the summer of 2002.

In Philadelphia, the value of a property for tax purposes is established by the Board of Revision of Taxes (BRT), which is an agency headed by seven individuals who are appointed by city judges. Removed in authority from the Mayor, but historically considered a body susceptible to political influence, the BRT traditionally operated in obscurity, notifying property owners that their taxes would increase or decrease marginally each summer due to changes in the value of their properties. But in the summer of 2002, the Board of Revision of Taxes had a surprise for many city homeowners — their taxes would increase substantially, by double-digit percentages in many cases and by more than one or even two hundred percent in others.

Any system to value real estate will develop a gap over time between the value of a property for tax purposes and the price that property will command at a sale. Unless a rigorous and determined effort is made each year to reset those values for tax purposes, that gap can widen quite a bit. These natural lags and bureaucratic limits on efforts to accurately track market changes (and, some believe, overt political efforts to avoid large increases or large decreases in property assessments in certain neighborhoods) contributed to the development of tremendous inequities in Philadelphia's system of real estate taxation. The relationship between a given property's assessment for tax purposes and that property's true value could differ dramatically from house to house. Perhaps more troubling, these differences tended to be systematic in a regressive way so residents in more-desirable neighborhoods tended to pay a significantly lower amount in taxes as a percentage of the true value of their homes than residents of less-desirable neighborhoods.

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Three factors combined to make the normally unremarkable reassessment process extremely volatile. First, because the BRT was being more aggressive in its efforts to close the gap between the value of properties for tax purposes and the true resale values, a small, but significant (and very vocal) number of homeowners received notification that the values of their homes for tax purposes would increase by amounts that were stunning in both real dollars and percentage of value. The media pounced on the story as these residents complained loudly about the increases to their representatives on City Council. Second, due in large part to the agitation of an organization called Hallwatch.org, which maintained a website rich with accessible and understandable public information on city government, property values were displayed on the internet for all to see. Where citizens were formerly unable to compare the value of their homes for tax purposes with other homes without significant effort, homeowners were suddenly able to assemble data that laid out the unfairness and seeming capriciousness of the Real Estate Tax system using their home computer. Third, with the heightened public outcry about the city tax structure in general, the coalition of tax reform advocates had networked to such an extent that this assemblage of outrage and information was quickly focused toward moving forward the push for additional tax reform.

City Council Responds

When City Council reconvened in the fall of 2002, a series of hearings on the city's system of real estate taxation addressed the inequities of the system, but generally focused on the fact that the city's elected leadership had limited ability to change the situation. The complex series of local and state laws that governed the powers and duties of the Board of Revision of Taxes were interpreted by some to prohibit or limit enactment of proposals introduced in City Council to change the governance of the real estate taxation process or freeze or cap assessments. Perhaps more frustrating to City Council members — because, in Philadelphia, assessments for tax purposes are carried out *after* tax rates are established — a perception developed that somehow the extreme assessment increases, coming after Council's opportunity to reduce rates had passed, were a way to generate a tax-revenue windfall to fund new administration initiatives.

Through the fall and winter and into the spring, a flurry of bills to cap or limit assessment increases, defer payment of Real Estate Tax obligations, or make changes to the assessment process moved through City Council. Suddenly advocates for tax reform were pushing for changes across the tax-reform spectrum and confronting issues that dealt with how the city's various taxes combined to create an overly burdensome and unfair tax structure. Council member Richard Mariano successfully lobbied to pass legislation to ensure that real estate assessments would not be used as a way to generate a revenue windfall. His bill would decrease the Wage Tax rate for city residents by a percentage related directly to any increase in Real Estate Tax collections above and beyond administration estimates. Council member Michael Nutter successfully lobbied to pass legislation to add certainty to future tax cuts. Just as his Wage Tax bill had been passed the previous spring, his new bill placed into law the cuts to the gross receipts portion of the Business Privilege Tax that were proposed in the Five-Year Financial Plan.

But it was clear that the city needed more than piecemeal tax reform. Despite the attractiveness or rationality of any single piece of tax reform legislation, Philadelphia's tax problems clearly required thoughtful, comprehensive solutions. Legislation to affect taxes on wages, businesses, and real estate piled up on the City Council legislative calendar, and arguments and threats of lawsuits among the different branches of government flowed from the continuing debate over real estate taxation. As the debate continued, the calendar became a factor as the 2003 primary election for City Council and Mayor loomed only a year away. The city's elected leaders were acutely aware that the combination of tax issues and an election year created an unpredictable environment.

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A Commission To The Rescue

Council member Nutter proposed to resolve the tension between the push for additional tax reform and the pressure of the pending election by changing the City Charter to establish a commission to examine tax issues. The measure, which would have to be enacted by voters at the fall election, could both create a true plan for comprehensive tax reform and take the issue of taxes off the public agenda during 2003 elections. At the polls in November 2002, voters overwhelmingly endorsed the creation of the Tax Reform Commission. By a four-to-one margin, a total of nearly 170,000 Philadelphians answered yes to this question:

> Shall the Philadelphia Home Rule Charter be amended to provide for the creation, appointment, powers and duties of an independent Philadelphia Tax Reform Commission which would recommend methods to reduce the taxes of Philadelphia residents, workers and businesses in an equitable manner in order to enhance Philadelphia's ability to compete with other jurisdictions in attracting and retaining new residents, businesses and jobs, based upon the Commission's comprehensive analysis of taxation in Philadelphia?

In January 2003, the Philadelphia Tax Reform Commission began its historic work.

Signe Wilkinson – January 27, 2003

Commission Impossible

The creation of a commission charged with recommending a blueprint for tax reform in Philadelphia was a tremendous opportunity to develop a true plan to address the barriers to growth created by the city's burdensome and unfair tax structure. But some tax reformers questioned whether the mechanism of the Tax Reform Commission was the appropriate tool to move forward the push for true tax reform. The voters had approved the creation of a commission with powers and duties and a composition shaped by behind-the-scenes political wrangling that created a compromise acceptable to the Mayor and City Council, who had to approve the measure before it was submitted to the electorate. Some wondered if the rules the commission would have to play by made the mission of the Tax Reform Commission a true mission impossible.

The powers of the commission itself were prescribed and constrained. The commission was not to make its final report until after the 2003 general election, which would deny tax reformers the ability to use the pressure of the election to compel candidates to take positions on tax reform issues. If the commission was not designed as a delay tactic to thwart the momentum that tax reformers had created, it certainly could have had that effect. The commission was not only to make recommendations to reduce the tax burden. The commission's work was also to be guided by the principles of tax fairness and tax equity in apportioning tax burdens. Furthermore, the recommendations would have to be fiscally and socially responsible. Recommendations would have to be crafted to reduce the tax burden to improve the city's competitiveness, but also improve overall fairness without threatening the city's fiscal future. But, in determining whether recommendations met that standard, the commission was specifically prohibited from making recommendations related to "any expenditure reductions, municipal government cost savings, or municipal government service reductions to offset any potential revenue reductions which may result from the implementation of any recommendations set forth in the Commission's report."

Early Struggles

Finding agreement on any issue would be a challenge. The Tax Reform Commission would comprise four individuals appointed by the Mayor, four appointed by the City Council President, one appointed by the City Controller, and six more appointed by various business organizations (the Greater Philadelphia Chamber of Commerce, Greater Philadelphia First, the African-American Chamber of Commerce, the Greater Northeast Philadelphia Chamber of Commerce, the North Philadelphia Chamber of Commerce, and the Hispanic Chamber of Commerce). But to reach consensus, the commission would require a two-thirds vote of its members on any issue, so any six commission members could, together, defeat any proposal. Furthermore, the commission would be advised by a 23-member panel that would include a diverse group of experts with incredibly diverse perspectives.

Giving early signs that the commission might frustrate tax reformers, the deliberative body organized itself in a not-so-deliberate manner, taking weeks to launch its efforts, and selecting an outspoken opponent of tax reductions, former City Council member Ed Schwartz, as its chair. If the push for tax reform had built momentum consistently in the prior years, it seemed as if the Tax Reform Commission not only might not fulfill its promise, the commission might even block any prospects for tax reform.

Lampooned in the media and derided by tax reformers, the commission soon put its floundering start behind and began its work. After resolving its organizational issues and hiring a capable staff, the Tax Reform Commission worked diligently to establish the problems of the tax structure and to fashion a series of complementary recommendations. If it was feared that the commission was stacked with appointees sympathetic to the view that the city could not afford dramatic tax reductions, chaired by an individual who did not believe in the push for tax reform, and limited by constraints on its ability to comment on government spending, the commission soon put each concern to rest.

The commission members and staff oversaw a wide-ranging analysis of the city tax structure. Analytic work broke new ground in establishing the magnitude of unfairness that had developed in Philadelphia real estate taxation. The most comprehensive econometric modeling to date established the cost of high taxes in terms of lost and foregone jobs and dampened property values. Anecdotal evidence from business surveys, town meetings, and a series of discussions with economic development professionals sharpened the impact of all of the scholarly work.

Final Report

The Tax Reform Commission spent $.5 million of taxpayer money and ten months to produce a comprehensive blueprint for tax reform. The commission established that Philadelphia's tax burden is higher than the burdens imposed by rival cities and surrounding suburbs, which makes the city uncompetitive, that Philadelphia taxes what other cities do not (relying on the taxes on wages and business activity while most other local jurisdictions rely on taxes on property), and that Philadelphia taxes unfairly so some taxpayers pay less than their fair share while others are forced to pay more.

The commission's package of recommendations was crafted to stand together like a three-legged stool of complementary proposals: dramatically reduce the burden of the Wage Tax by cutting the tax by more than one quarter over the next decade; reform and then gradually eliminate the Business Privilege Tax in ten years; make the Real Estate Tax system fair and transparent by improving the real estate assessment process, implementing safeguards against large annual tax increases, creating a Taxpayer's Advocate, and phasing in Land-Value Taxation to encourage property improvements and discourage blight.

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Stretching the limits of its charge to offer recommendations that were fiscally responsible, the commission outlined a series of initiatives to demonstrate how the city could afford tax reform. The commission adamantly stated that economic growth would expand the tax base and generate additional tax revenues in future years. If that growth did not materialize immediately, the commission pointed out that the city could improve its tax-collection efforts to make sure that those who owe, pay; that the city could enhance revenue streams by increasing and strengthening collections of fees and fines; and that officials could better examine city spending to ferret out waste and fat in the budget. Finally, the commission boldly stated that if the city administration could not or would not find a way to close any short-term revenue gap to enable the implementation of the commission's recommendations, the city should absolutely reduce the taxes that chased away firms and families even if leaders had to increase other taxes to be able to do so.

On November 18, 2003, the commission hosted a major media event to formally release its 500-page, three-volume final report. The report established the clear need for tax reform in Philadelphia to enhance efforts to retain and attract jobs and residents, and provided the rationale for the commission's 28 formal recommendations. For a commission that began under a cloud of doubt, the event was a testament to the accomplishment of its members. The volunteer citizens who worked so hard to forge the consensus that resulted in a 14-1 vote in favor of the commission's report exceeded all expectations and provided Philadelphia with a tax reform plan that was credentialed and comprehensive, worthy and wise, pragmatic and possible.

After the release event, when the television lights dimmed and the last congratulatory handshakes were exchanged, Philadelphia had its blueprint for tax reform. It was a clear plan for action, but it was not clear if the plan would become the basis for a new tax structure or just another volume gathering dust on a shelf.

Tony Auth – May 27, 2004

Philadelphia Needs Tax Reform To Move Philadelphia Forward

If Philadelphians thought they might receive tax reform for Christmas, they would have to settle for coal in their stockings. The members of the Tax Reform Commission worked to secure endorsements for the commission's recommendations from dozens of diverse organizations — from the lawyers of the Philadelphia Bar Association to the anti-homelessness organization Project H.O.M.E., from the anti-sprawl advocates of 10,000 Friends of Pennsylvania to the merchants of the Center City Proprietors Association, from the National Congress for Puerto Rican Rights to the National Organization for Women, from Young Involved Philadelphia to the Homeowners Association of Philadelphia, and from organizations representing business and residents across the city including the American Street Erie Avenue Business Association, the North 22^{nd} Street Merchants Association, the Delaware Valley Healthcare Council, the African-American Chamber of Commerce, the Bella Vista United Civic Association, the Mayfair Community Development Corporation, and the Port Richmond Industrial Development Enterprise. But, after the months of work by the commission and despite the incredible display of support, the initial reaction from the city's elected leadership was that the commission's recommendations would require additional study.

One early positive sign came from the Board of Revision of Taxes. The agency committed to follow many of the commission's recommendations to improve the real estate assessment process and announced that it would undertake a comprehensive effort to fully and accurately value every city property. If successful, the move would be a major step toward making real estate taxation fair and transparent. But the majority of the commission's recommendations relied on mayoral initiative or City Council action. They would have to wait.

The results of the 2003 election did little to advance the cause. Mayor Street faced another spirited election from the man he defeated in 1999. Again, challenger Sam Katz offered an ambitious proposal to reduce taxes. Mayor Street argued that the city was doing as much as it could afford in terms of tax reduction. The election ultimately became a bizarre drama that included the revelation that the Mayor's office had been bugged as part of a federal corruption probe; and the spin and counter-spin that the Philadelphia mayoral election was either an overwhelmingly Democratic city's referendum on the presidency of Republican George W. Bush or an appeal to divide the races. In the end, Mayor Street was returned to office with a comfortable margin of victory and even though the creation of the Tax Reform Commission had been overwhelmingly endorsed by the voters just a year before, the 2003 mayoral election was interpreted as a defeat for tax reform by some Street partisans. City Council's membership remained virtually unchanged, but a change in the way Council organized itself shifted power away from Council President Anna Verna, who tended to be sympathetic to the cause of tax reform, to members who tended to vote with the Mayor.

A New Voice For Change

For the many men and women who had been pushing so hard for tax reform, it had become increasingly clear that the way to achieve change in Philadelphia was not to simply author additional reports or compelling proposals to establish the need for tax reform. To move forward issues like tax reform and other positive policies, Philadelphia could not rely on the *status-quo* approach toward city policy making. It was in that spirit that former members of the Tax Reform Commission and other tax reform advocates formed a new organization called *Philadelphia Forward* in March 2004 to educate about measures to transform Philadelphia — from a city that is growing older, poorer, and fewer — into a vibrant city that is a preferred place to live, work, and visit. Led by founding Executive Director and former Tax Reform Commission member, Brett Mandel, and directed by an executive committee comprising businessman and former Tax Reform Commission member William R. Miller, IV, Greater Philadelphia Urban Affairs Coalition President Sharmain Matlock-Turner, and Pennsylvania Economy League, Eastern Division Executive Director David Thornburgh, *Philadelphia Forward* established a constituency for change in Philadelphia.

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In the weeks and months ahead, *Philadelphia Forward* would create new educational resources and information products and criss-cross the city explaining the need for tax reform and outlining the thinking behind the plan created by the Tax Reform Commission. *Philadelphia Forward* also worked hard to establish the new organization as a credentialed resource for individuals, groups, and the media to turn to for information about the push for change. With an accessible and informative website, and an aggressive effort to communicate directly with Philadelphians through emails and phone banking, *Philadelphia Forward* brought its message of change to the people and offered an optimistic message that, with enough public voice, Philadelphia could change from the policies that hold the city back and embrace policies that could move the city forward. *Philadelphia Forward* then created new conduits for individuals to use to get involved and make their voices heard. As the organization commenced its work, it was clear that that voice would have to be loud and clear, because the city's elected leadership gave little indication that the time for tax reform had come.

At his inaugural address in January, the Mayor announced the formation of a 21st Century Review Forum, which was charged with making recommendations for a second Street Administration. One of its charges was to review the recommendations of the Tax Reform Commission. Despite the fact that the Tax Reform Commission had just completed a thorough and extensive analysis of the city's tax structure, the commission's recommendations would receive an additional layer of review. In past years, city leaders would have commenced their consideration of the city budget and Five-Year Plan in January, but, to accommodate the work of the 21st Century Review Forum, Mayor Street pushed back the start of the budget process until March.

In January, Council members Nutter (joined in part by Council member Goode) introduced the 13 bills necessary to implement recommendations of the Tax Reform Commission. However, in Philadelphia, the budget process is initiated by the Mayor and if he did not include tax reform recommendations in his proposed budget and Five-Year Plan, *Philadelphia Forward* and other tax reformers would face an uphill battle.

While waiting to hear from the Mayor, Council member Marian Tasco joined Council member Nutter in pushing to have City Council hold public hearings on February 24th and 25th to take testimony from the members of the Tax Reform Commission as well as other interested groups and individuals to consider the thinking behind the commission's recommendation and its work. Many of City Council's consistent supporters of tax reform measures attended and asked thoughtful questions. But during two days' worth of hearings, the majority of City Council members, including many of the Mayor's closest allies in the legislature, did not make an appearance in Council chambers — they boycotted consideration of the work of the Tax Reform Commission in advance of any action by the Mayor.

More Voices For Change

On the 5th of March, Mayor Street spoke at a luncheon sponsored by the Greater Philadelphia Chamber of Commerce and gave the first indication of how he would address tax reform. Elating many in the audience, he declared, "There can be no doubt about the need for a more rational, progressive and less onerous tax structure in Philadelphia" and proclaimed the work of the Tax Reform Commission to be the "blueprint" for reform. The Mayor stated that he supported the shift to enact Land-Value Taxation, and would implement single-factor apportionment to base taxes on business income on the percentage of a firm's Philadelphia sales and remove the disincentive for firms with few Philadelphia sales to remain in the city.

The Mayor concluded his remarks about tax reform with the statement, "Sustaining an aggressive tax reform agenda and achieving the Charter mandate of a balanced budget in this tough economy will require that my administration and City Council make some difficult decisions. The next two fiscal years are going to demand sacrifice in order to achieve both tax reform and tax reduction."

Just a week later, the push for tax reform received an even stronger vote of approval. Tax reform advocates may have been disheartened by the idea that the work of the Tax Reform Commission would face additional review by the Mayor's 21st Century Review Forum, but the Review Forum's final report was another ringing endorsement for the idea of tax reform and the work of the Tax Reform Commission. The Mayor's own handpicked transition team gave tax reform perhaps its strongest endorsement yet. On the 11th of March, the 21st Century Review Forum released its final report, which declared, "The city should move quickly to adopt the major recommendations of the Tax Reform Commission - even if expenditures have to be reduced to cover the initial tax revenue shortfall. The mayor's very important quality of life strategies will not have the desired impacts or be sustainable in the long run in the absence of fundamental tax reform."

The report also directly confronted the city's budget and fiscal condition. After years of city budget surpluses and an expanding fund balance that reached nearly $300 million (or about 10.0 percent of the city budget), the Street Administration had posted consecutive operating deficits, spending more than it raised in revenues and almost totally depleting the accumulated surplus. While locally generated tax and non-tax revenues had exceeded budgeted amounts, the increases could not keep pace with the expanded spending on police overtime related to the Mayor's anti-crime initiative, debt-service payments related to the deal to fund construction of a new ballpark for the Philadelphia Phillies and a new stadium for the Philadelphia Eagles, debt-service payments related to the Mayor's anti-blight initiative, and funding for the School District as part of the agreement to have the schools taken over by the state.

Tax reform advocates would argue that while the city could find money to spend on favored initiatives, administration officials would offer excuses to avoid additional tax reform. The 21st Century Review Forum seemed to agree and counseled, "Some will question whether the city with its projected FY05 deficit can afford significant tax reform at this time, but that is the wrong question. Rather we should ask how we can afford not to reform taxes now."

More Of The Same

Now, all eyes were on the Mayor as he took the latest endorsement for tax reform under advisement and prepared to submit a budget and Five-Year Plan that could — or could not — include significant tax reform initiatives. Advocates for tax reform tried to take a wait-and-see approach, but after the Mayor's remarks before the Chamber of Commerce and after the endorsement of tax reform by the 21st Century Review Forum, most were enthusiastic that the spring of 2004 would be the season of tax reform in Philadelphia. Of course, the devil would be in the details of the Mayor's budget and Five-Year Financial Plan. Those details would be less encouraging. When the Mayor delivered his budget address and submitted his proposed budget and Five-Year Financial Plan to City Council, the "more rational, progressive, and less onerous tax structure" mentioned in the Chamber of Commerce speech was absent, and while he did continue to speak of his support for Land-Value Taxation and single-factor apportionment, he would ultimately take no action to implement either initiative.

Despite the endorsement of the Tax Reform Commission's proposals from individuals and organizations across the city, and even his own transition team, the Mayor rejected the commission's major recommendations.

The Mayor's tax reform proposal would not do enough to lower the city's onerous tax burden and change the tax mix that sets the city apart in a bad way, and would not do enough to help neighborhood businesses or start-up firms. Despite the endorsement of the Tax Reform Commission's proposals from individuals and organizations across the city, and even his own transition team, the Mayor rejected the commission's major recommendations. Instead, citing the need to be fiscally responsible and noting that the precariously balanced budget included significant cuts to popular programs, the Mayor refused to increase the pace of reductions to the Wage or Business Privilege Taxes. In fact, the Mayor proposed repealing the legislation that called for a decrease in the resident Wage Tax when Real Estate Tax collections exceeded administration estimates, which would actually reduce the future tax cuts anticipated by residents. The Mayor would, however, make room in his proposed budget for new initiatives and would soon make even more room in the budget that, he contended, could not support additional tax reductions, to provide $72 million in financial assistance to the failing Philadelphia Gas Works. While the Mayor contended that he supported what he termed his "responsible tax reform" approach, those very measures were in place when the Tax Reform Commission declared that more must be done and when the Mayor's 21st Century Review Forum concurred that the city must enact the commission's recommendations for the Mayor's initiatives to be successful.

Signe Wilkinson – May 10, 2004

100 Days And Thousands Of Voices For Tax Reform

In 2002, the Mayor's announcement that he would end Wage Tax cuts had sparked a significant response that successfully advocated for the return of modest Wage Tax reductions. This latest announcement, that the major recommendations of the Tax Reform Commission would be rejected, started 100 days of consistent public pressure in the spring of 2004 that would raise public voice in Philadelphia to a noise level unmatched in recent memory. *Philadelphia Forward* and tax reformers across the city commenced an effort to raise awareness of the issues surrounding the push for tax reform and promote the work of the Tax Reform Commission.

It was clear that the battle would be a difficult one. First, the newly reelected Mayor had essentially drawn his line in the sand against additional tax reform and was prepared to fight hard to ensure that others did not get their way. The stakes involved in this first significant challenge to his power as a now lame-duck Mayor were interpreted by some as sky-high: lose this fight and admit that the second Street Administration was marking time until the 2007 election. Second, City Council was not teeming with staunch tax reform advocates who would be willing to put their political capital on the line to push for the recommendations of the Tax Reform Commission. As evidenced by the inability to even generate a quorum of nine Council members to attend the February informational hearing on the commission's work, it was not clear at all whether anyone on City Council would step forward to help secure the votes to pass tax reform legislation. Finally, the effort to implement the recommendations of the Tax Reform Commission would be played against a backdrop of significant budgetary conflict as the Mayor's budget failed to include significant tax reform measures, made no provision for raises for municipal workers whose contracts would expire in June, and actually proposed cuts to funding for arts and culture programs, recreation services, and the Fire Department. The members of City Council would clearly be looking for ways to fund other priorities — in addition to or in lieu of tax reform — as the budget process moved ahead.

Philadelphia Forward Energizes The Push For Change

In the coming weeks, *Philadelphia Forward* staff and board members met with elected officials, wrote opinion pieces for newspapers, and appeared on radio and television shows to spread word about the need for tax reform and the push for change. *Philadelphia Forward* testified before City Council on numerous occasions, addressed dozens of neighborhood organizations and community groups, distributed tens of thousands of brochures, and sent millions of emails. The organization would be a countervailing force to answer every statement offered by the opponents of change with an informed and emphatic alternate perspective in support of tax reform. An informative and interactive website teemed with new information that compared the economic estimates of Philadelphia's likely future with and without tax reform and demonstrated the clear choice between the chance for growth and the near certainty of continued decline. With an ability to reach tens of thousands of Philadelphians instantly through its email database, *Philadelphia Forward* could now communicate directly with residents across the city and deliver an instant update about the progress of the push for change.

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The citizenry responded to the outreach efforts by getting involved. City residents attended internet-facilitated tax-reform "meet-ups," which became one of the city's most popular meet-ups coordinated by meetup.com. Dozens of editorials promoting tax reform appeared in citywide and neighborhood newspapers, maintaining a positive emphasis on tax reform that complemented the countless articles about the push for change that appeared during the spring of 2004. The *Wall Street Journal* even focused its editorial attention on the push for tax reform in Philadelphia. A video game on the *Philadelphia Forward* website and a limerick contest attracted significant media attention and brought newcomers to the *Philadelphia Forward* website. Hundreds of people attended an April 15th Tax Day rally at City Hall to call attention to the city's tax issues. Individuals and organizations wrote scores of letters and made hundreds of phone calls to city elected officials in support of tax reform. In what became the signature effort of the public outcry, *Philadelphia Forward's* work encouraged more than 4,000 individuals to send faxes to the city's elected officials. The faxes, which were copied as emails to citywide and neighborhood newspapers and community organizations across Philadelphia, created a near-ceaseless flow of faxes that jammed fax machines and deluged City Hall with more than 80,000 faxes that, stretched end to end, would extend the ten-mile length of the Broad Street Subway line. Most important, the public awareness, public education, and public voice won the support of a solid majority on City Council.

Putting Tax Reform To A Vote

In Philadelphia, only two numbers matter when considering any effort to pass legislation. Nine Council members constitute a majority necessary to pass legislation in the 17-member legislature, but 12 votes — a two-thirds majority — are required to override a mayoral veto. The challenge to pass any legislation is to assemble those nine votes. The challenge to pass any legislation that is likely to be met by a mayoral veto is to find a full 12 votes.

Behind the scenes, Council members faced intense pressure from the Mayor and the city administration to support the Mayor's proposed budget, but they faced additional pressures, too — and not just from advocates for tax reform. The unions representing municipal workers wanted to be sure the budget could afford future wage increases. Park advocates pushed for additional park funding. Culture supporters promoted more spending on the arts. Observing the fluid and volatile situation that changed by the hour, Council watchers found it virtually impossible to maintain any accurate accounting of how members would vote. The only thing that was certain was that the clock was ticking to the May 31st legal deadline for passing the city budget.

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A City Council committee vote (legislation must be approved in committee before it can be considered by the full Council for passage into law) held after a session stretched past midnight and into the morning of May 25th gave the first indication of how the budget/tax reform drama would play out. Council members voted to restore virtually all of the cuts the Mayor had proposed to arts and culture programs, recreation services, and the Fire Department. With Council member Brian O'Neill emerging as a staunch tax reform supporter and serving as a legislative whip for the cause, advocates for tax reform on City Council had the votes necessary to pass significant measures recommended by the Tax Reform Commission.

City Council passed legislation out of committee to dramatically reduce the Wage Tax over the next decade, legislation to incrementally eliminate the Business Privilege Tax by 2015, and legislation to reform the Business Privilege Tax while it still exists to equalize treatment of employers so sole proprietors and partnerships no longer have to pay a higher tax burden than their corporate competitors. Council also passed legislation out of committee to implement a recommendation by the Tax Reform Commission to close loopholes in the law governing the city's tax on real estate sales and transfers as well as legislation to implement the commission's recommendation to improve the fairness of the city's business taxes by unifying statutory refund and assessment periods so the city and taxpayers have equal rights to collect back taxes and seek refunds. Finally, City Council also passed legislation out of committee to target additional Wage Tax reduction to low-income residents, but in an amended fashion so the bill would not take effect within the period of the pending Five-Year Financial Plan.

Council in committee voted against legislation to enact Land-Value Taxation. Many members still had questions about the idea and certain city property owners (especially parking-lot owners) who would see their taxes increase under the policy had made their opposition clear. The recommendation would have to wait for another day. Council then decided to hold off consideration of a number of the Tax Reform Commission's other recommendations until it reconvened in the fall to concentrate on the measures that would have an impact on the proposed budget.

On Memorial Day — on the very day of the legal deadline to approve the city budget — with hundreds of citizens mobilized by *Philadelphia Forward* attending the legislative session, City Council voted in favor of the amended version of the budget and the tax reform measures.

But, the Memorial Day vote was certainly not the end of the story. City Council had passed a balanced budget, but its actions to restore funding to various programs and approve additional tax reduction measures left the resulting Five-Year Financial Plan with significant unfilled gaps between revenues and expenditures. An unbalanced plan could not win the necessary approval of the Pennsylvania Intergovernmental Cooperation Authority, and the Mayor was not prepared to unilaterally make cuts in the latter years of the Plan to bring it into balance.

The Mayor vetoed the entire city budget as well as the bills to accelerate cuts to the Wage Tax, eliminate the Business Privilege Tax, and equalize treatments of employers for tax purposes, and target additional Wage Tax cuts to low-income Philadelphians. The bill to close Realty Transfer Tax loopholes and the bill to unify the refund and assessment periods were signed into law by the Mayor. The legislation to target additional Wage Tax cuts to low-income Philadelphians became law when the Council overrode the mayoral veto.

Budget Turmoil

After the Mayor's unprecedented veto of the Council-adopted budget, the city entered a gray area of law. While the city was past the legal deadline for adopting its annual budget, the law provided for no consequence to that status. The true deadline was the beginning of the city's fiscal year on July 1st — the city could spend no money without a budget in place at the start of the fiscal year. While the days and weeks after the Mayor's veto left the city and its elected leadership in a bizarre purgatory, if the city would enter the fiscal year without the ability to spend money, the result would be chaos.

Resolving the budget/tax reform debate meant that the process essentially started again from scratch. The Mayor resubmitted his proposed budget, along with its funding cuts, to City Council. City Council members reintroduced legislation to accelerate cuts to the Wage Tax, eliminate the Business Privilege Tax, and equalize treatments of employers for tax purposes. The argument was not over whether taxes should be cut. Rather, those opposed to additional tax reform argued that the cost of future tax cuts was just too high and that legally committing the city to future cuts was unwise. Those pushing for additional tax reform countered that the "cost" of future tax cuts was a tiny percentage of future city spending that could be absorbed by the budget with little effect on the city's budgeted priorities, and that any legislated tax rates could be changed by a future City Council if necessary.

Proactively inserting itself into the budget debate, the members of the board of the Pennsylvania Intergovernmental Cooperation Authority sided clearly with those pushing for tax reform. The members of the PICA board indicated not only that they agreed with the idea of more aggressive tax reductions, but that they would approve a Five-Year Financial Plan that filled revenue gaps with estimates of increased tax collections that could be expected to occur if the city improved the competitiveness of its taxes.

Various compromise proposals floated by Council members attempted to resolve differences between the Mayor and the majority on City Council, or to expand that majority to constitute a veto-proof coalition. There would be no grand compromise in the end. In a final effort to win the votes necessary to override a mayoral veto, City Council passed a budget that restored the Mayor's cuts and included some new spending reductions to fund those restorations as well as a reconceived package of tax reform legislation. The bills to accelerate cuts to the Wage Tax and to eliminate the Business Privilege Tax were altered so that the pace of cuts (and their "cost" to the budget) would be somewhat reduced — the Wage Tax would reach its nadir in 2015 instead of 2014 and the Business Privilege Tax would be eliminated by 2017 instead of 2015. The bill to equalize treatments of employers so sole proprietors and partnerships no longer have to pay a higher tax burden than their corporate competitors was put on hold.

Finally, a clever legal maneuver tied an increase in the Parking Tax to the adoption of the bills to accelerate cuts to the Wage Tax and eliminate the Business Privilege Tax. The increase to the Parking Tax had been suggested by the Tax Reform Commission and pushed by the Mayor to help fund tax reform measures. Council members offered to approve the new revenue stream, but by only allowing it to go into effect upon the implementation of the tax-cut bills, Council refused to allow that new revenue to go to the city in the absence of additional tax reform. This last, best offer presented a balanced budget, a balanced Five-Year Financial Plan, and a tax reform compromise that was a modification of the Tax Reform Commission's original proposal, but certainly significant tax reform.

The tax reform bills passed with 11 Council members — David Cohen, Frank DiCicco, Wilson Goode, Jr., Jack Kelly, James Kenney, Joan Krajewski, Michael Nutter, Brian O'Neill, Frank Rizzo, Marian Tasco, and Anna Verna — voting "aye." Six — Jannie Blackwell, Darrell Clarke, Richard Mariano, Donna Reed Miller, Juan Ramos, and Blondell Reynolds Brown — voted "nay." The budget was passed with 12 favorable votes as Council member Ramos joined the majority.

End Game

The pages on the calendar were turning quickly toward July 1st and the Mayor once again had a budget and tax reform bills to consider. Unless a Council member had a last-second change of heart, the budget could be enacted in spite of the Mayor's disapproval. The tax reform bills, however, were still one vote shy of a veto-proof majority. The Mayor seemingly had the ability to veto the bills without fear of an override, but that did not mean that he would veto them.

The newly passed budget and Five-Year Financial Plan were balanced, but vetoes to either or both of the bills to accelerate the Wage Tax cuts or eliminate the Business Privilege Tax would actually throw the budget out of balance and put the city in the red. First, the city would not get any increased Parking Tax revenues, since the increase in the Parking Tax was directly tied to the tax-cut bills becoming law. Second, because the bill that accelerated Wage Tax cuts also moved Wage Tax reductions to January 1st instead of July 1st (to make the tax less complicated for taxpayers and tax preparers) vetoing the bill would mean that the Wage Tax would continue to be cut in July and not six months later. Additionally, the bill to accelerate Wage Tax cuts would replace the law that decreased the Wage Tax paid by city residents by a percentage related to increases in Real Estate Tax collections above administration estimates. Vetoing the new Wage Tax bill would leave the bill that tied Wage Tax cuts to Real Estate Tax collections growth in place. Thus by vetoing the bill to accelerate the Wage Tax cuts, the Mayor would actually force the city to cut the Wage Tax deeper and sooner.

Vetoing both of the tax reform bills passed by City Council would create a $17 million hole in the proposed budget for the next fiscal year. Because, by law, the city budget has to be balanced, the Mayor could not veto the bills without also going back into the budget to eliminate some city spending. It was ironic, but true: the Mayor, who argued that the city could not afford additional tax reform, would actually have to reduce city spending to reject additional tax reform.

As a result of the combination of the local bill and the state action, the Wage Tax would be cut from 4.4625 percent for residents and 3.8801 percent for non-residents all the way to 3.0 percent for both residents and non-residents by 2015.

The Mayor announced his intentions just minutes before the City Council convened a July 1st special session. The Mayor signed into law the legislation to accelerate reductions to the Wage Tax. Just days later, the city received news that as part of legislation to expand gambling in the Commonwealth of Pennsylvania to include slot machines, the city would receive additional revenues to be used to further reduce the Wage Tax. As a result of the combination of the local bill and the state action, the Wage Tax would be cut from 4.4625 percent for residents and 3.8801 percent for non-residents all the way to 3.0 percent for both residents and non-residents by 2015. The incredible one-third reduction of this most devastating (and most significant in terms of the revenue it generates for the city budget) tax will drive the rate to a level below where it had been when man first walked on the moon, making local taxes less burdensome and improving the city's ability to retain and attract employers as it increases workers' take-home pay.

The Mayor vetoed the legislation to eventually eliminate the Business Privilege Tax. City Council fell one vote shy in an attempt to override the veto. The portion of the tax that falls on gross receipts will not be reduced beyond currently planned cuts in the next few years and the portion of the tax that falls on net income will not be reduced at all. While the city administration and its allies in Council once tried to stop cutting the Wage Tax in favor of deeper cuts in the Business Privilege Tax, they suddenly tacitly embraced accelerated Wage Tax cuts without accelerated cuts to the Business Privilege Tax. Additional relief for Philadelphia employers will have to wait.

The Mayor and the six members who stood against the clear majority on Council, against the conclusions of the Tax Reform Commission, against the endorsement of the 21st Century Review Forum, against the support of countless organizations across the city, and against the public voice that echoed in neighborhoods throughout Philadelphia, consistently argued that the city could not afford additional tax reform without threatening delivery of vital city services. Because the increase to the Parking Tax could not become law since the bill to eliminate the Business Privilege Tax failed to become law, the Mayor was left with a $4 million hole in his budget. After vetoing the bill to eliminate the Business Privilege Tax, the Mayor used his budgetary line-item veto authority to cut $4 million in police overtime to rebalance the budget. Neither the Mayor nor the six members who voted against tax reform offered any comment about whether the cuts would affect the delivery of vital city services. The budget was law and the debate over tax reform was settled — for the moment.

Signe Wilkinson – February 14, 2002

Unfinished Business

Since the release of the Tax Reform Commission's Final Report in November 2003, the city has taken important steps toward tax reform. The push for tax reform has not just changed the terms of debate; it has created positive results. Of the Tax Reform Commission's 28 formal recommendations, three required no action at all and three cannot move forward without significant state action (which was always considered desirable, but unlikely). Of the 22 other recommendations, eight are now the law (or policy) of the land. Half of the commission's recommendations must still be implemented to realize the commission's compelling vision.

The Tax Reform Commission concluded that there are three major problems with Philadelphia taxes: taxes are just too high, the city taxes what other jurisdictions do not, and the city taxes unfairly. To fix those problems, the Tax Reform Commission recommended dramatically reducing the Wage Tax, reforming and eventually eliminating the Business Privilege Tax, and making real estate taxation fair and transparent.

Thanks to new legislation passed by City Council and signed into law by the Mayor, the city will now dramatically reduce the Wage Tax over the course of the next decade. This local action, plus the additional Wage Tax relief that will be made possible by the future infusion of gambling revenues, will bring the Wage Tax down to a level where it will no longer represent an insurmountable barrier to growth. The "problem" of the Wage Tax now has a long-term solution that essentially means that Philadelphia may not have to review the issue of the Wage Tax for years to come.

To-Do List

We must still work to pass legislation to eliminate the Business Privilege Tax and pass legislation and enact policy to reform the Business Privilege Tax while it still exists.

But, relief from job-killing taxes on small and expanding firms remains elusive. We must still work to pass legislation to eliminate the Business Privilege Tax and pass legislation and enact policy to reform the Business Privilege Tax while it still exists. Philadelphia will only thrive if it can nurture and grow fledgling businesses. Without such an environment for growth, Philadelphia will continue to lose employers and jobs. Today, this tax on business receipts and business income forces city businesses to pay the nation's highest local business tax. It is almost unheard of for a locality to tax both receipts and income, yet Philadelphia does. The high rate of the tax — 0.19 percent on gross receipts and 6.5 percent on net income — is certainly problematic, but it is also frustrating that, unlike business taxes at the state and federal level, the tax must be paid all at once on one date. The gross receipts portion of the Business Privilege Tax must be paid whether or not a firm makes a profit, which is extremely harmful for growing firms that operate on narrow margins. The net income portion provides a very compelling reason for firms to leave the city as it places businesses at a serious disadvantage when competing against non-Philadelphia firms. The tax is unfair to small businesses since it is imposed in a way that forces sole proprietorships and partnerships to pay a higher tax burden than corporate competitors. Finally, the city discourages any firm that figures on operating with a net operating loss in the early years from locating in Philadelphia since it only allows a net operating loss carryforward period of three years (other jurisdictions offer a longer timeframe.

The Tax Reform Commission proposed a series of recommendations to fix the problem of high and unfair business taxes that will allow firms to compete and grow in Philadelphia:

- incrementally eliminate the Business Privilege Tax by fiscal year 2015;
- establish two estimated payment dates for the Business Privilege Tax so taxpayers no longer have to assemble the cash to make their tax payment on one date;
- adopt single-sales factor apportionment based on Philadelphia sales to remove the disincentive for firms with few Philadelphia sales to remain in the city;
- grant unincorporated businesses a deduction for payments to partners, members, and sole proprietors to eliminate the disparity that forces partnerships to pay a higher tax burden than their corporate competitors; and
- lengthen the Business Privilege Tax net operating loss carryforward from three years to ten years so that start-up firms are not discouraged from locating in the city.

The city must also address critical issues of fairness and transparency regarding real estate taxation in Philadelphia. Today, real estate taxation in Philadelphia is unfair. Similar properties are taxed very differently and questionable assessment methods cause the poorest among us to pay too much, while the wealthiest among us get a break. Those who improve their properties face higher tax bills, while those who allow their buildings to deteriorate receive a tax break. Real estate taxation is also inaccessible and confusing. Unfamiliar concepts and complex formulas make it hard for homeowners to understand how their tax bills are calculated. An agency that is not appointed by the Mayor or City Council is responsible for determining the value of properties and listening to appeals by homeowners who disagree. Increases in a property's value for tax purposes in a single given year may be outrageous, but, because the value is set after the tax rate, the city's elected officials can do nothing to address the resulting tax burden until the following year.

The city must also address critical issues of fairness and transparency regarding real estate taxation in Philadelphia.

Thanks to policy changes, the city's Board of Revision of Taxes will make major strides toward assessing all city properties accurately and fairly in the years ahead. But, we must still work to enact many complementary recommendations designed to improve the overall fairness and workings of the Real Estate Tax system. The Tax Reform Commission proposed a series of recommendations to create an equitable and understandable system of real estate taxation that will improve certainty and equity for Philadelphia property owners:

- implement a system of budget-based real estate taxation so City Council sets tax rates after it knows the true assessed value of the city (today, Council sets tax rates before assessments are performed so increases in assessments can result in increasing tax bills and fiscal windfalls for the city — if assessments increase, the city should be able to generate increased revenues with *reduced* tax rates);
- separate the property assessment and appeals processes so the assessing agency does not judge its own work;
- establish a taxpayers' advocate to represent taxpayers in matters regarding real estate assessment and appeals;
- implement a Real Estate Tax buffering program so that assessments are based on a rolling, three-year average to prevent one-time spikes in Real Estate Tax bills;
- implement a quarterly payment plan so taxpayers not paying taxes through mortgage companies do not have to assemble the cash to make their tax payment on one date;
- apply tax payments to the current year's tax liability so that delinquent taxpayers who are making tax payments can qualify for state assistance; and
- phase in Land-Value Taxation to decrease tax rates on structures and increase tax rates on land so that the city provides an incentive for economic development and a disincentive to blight creation and speculation.

Looking Back, Looking Forward

In the months after the release of the Tax Reform Commission's final report, a minority of elected officials in Philadelphia thwarted the will of the public and the majority of the citizens' representatives on City Council. They ignored the recommendations of the Tax Reform Commission, the Mayor's handpicked transition team, the City Controller, and the Pennsylvania Intergovernmental Cooperation Authority Board. But new developments each day continue to make the case for the good idea that is tax reform and increase the likelihood that Philadelphia will see more tax reform in the near future. Even as the minority of elected officials fought against tax reform claiming that the proposed budget could not be cut to allow for tax reductions, they showed that the budget not only found room to continue the administration's favored projects, but also included new administration initiatives. Finally, with his action vetoing the bill to reduce the Business Privilege Tax cuts, the Mayor quickly found the ability to cut even further into the budget that administration officials claimed could not endure any cuts.

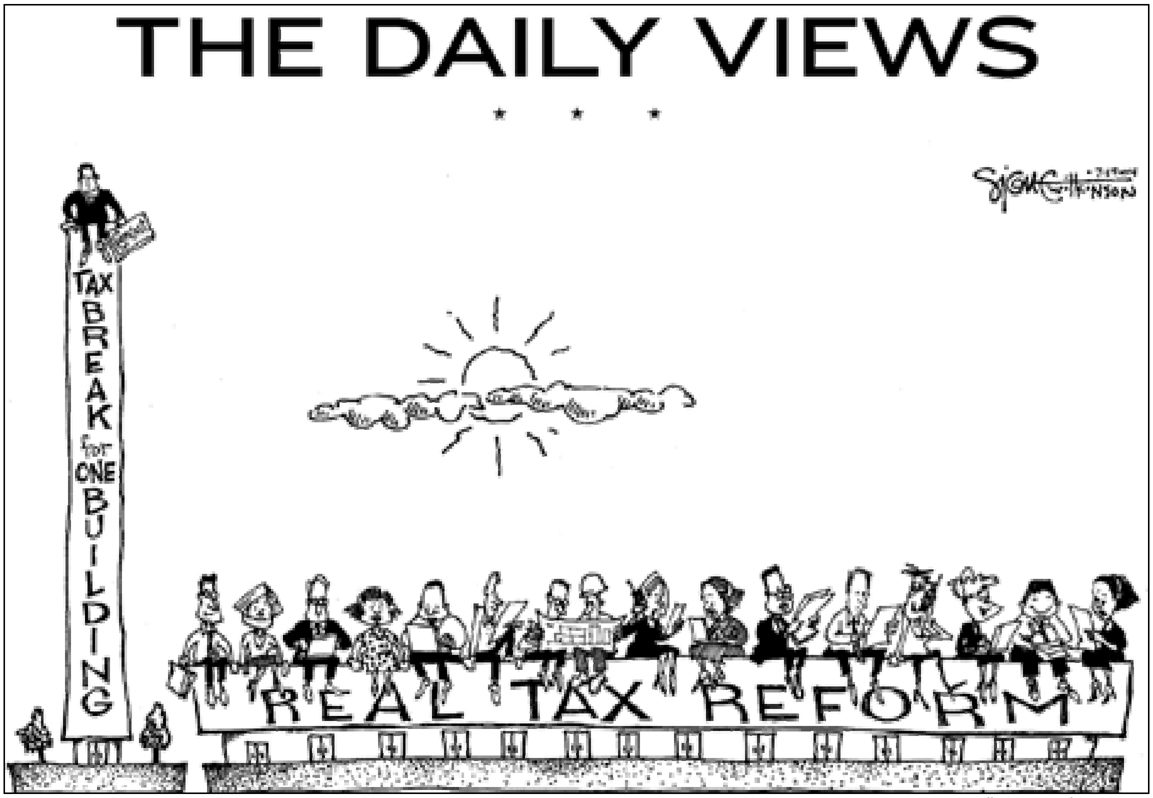
Just days after the adoption of the new city budget, new revenue streams emerged that will give the city the ability to further reduce taxes. First, the city finished the fiscal year that ended on June 30th with a windfall of tax revenues that exceeded budgeted projections and will increase the base for tax revenue estimates by more than $30 million per year for the years of the city's newly adopted Five-Year Financial Plan. Additionally, new revenues related to the expansion of gambling in the Commonwealth of Pennsylvania are expected to generate an extra $40 million — beyond the tax relief other gambling revenues would pay for — starting in 2007.

During the most recent debate on tax reform, certain elected officials balked at the idea of additional tax reform because they feared that "paying for" tax reform would reduce the city's ability to fund critical services. If the argument is not whether we *should* reform our taxes, but whether we *could* afford to reform our taxes, these new revenues eliminate any discussion.

Thus, the story of tax reform in Philadelphia is a continuing story. Tax reform may once have been seen as immoderate, impractical, or impossible. Now, the debate is not whether to reform our taxes, but how we should reform our taxes and how quickly we can make it happen.

Philadelphia is a great city for all of the reasons cities are great. The city is a vast community that can nurture individuals of all races and creeds. The city is a tremendous marketplace where businesses and organizations can thrive. The city is a fount of opportunity where science and culture can flourish. But Philadelphia cannot realize the full promise of its greatness if it continues to embrace policies that check its potential.

Philadelphia can become a city with no city limits. Today, taxes hold Philadelphia back. Tomorrow, tax reform can move Philadelphia forward.



Signe Wilkinson – July 19, 2004

Afterword

In recent years, the push for tax reform has overcome an incredible array of hurdles in public debate. Perhaps more than any other issue of the day, tax reform has had to prove itself as a desirable policy. The worthiness of tax reform as an idea is a subject that has undergone rigorous theoretical and empirical study. When the idea emerged as a sound one, tax reform then faced political opposition. After popular support coalesced around the policy, tax reform was placed on the ballot and then subjected to review by a credentialed commission. Even after that commission put forth its proposals, its work was subjected to review by another panel. On and on it goes.

In the years since tax reform has been the subject of serious discussion in Philadelphia, countless major policy decisions have been made without widespread public support, credentialed recommendation, or significant research to establish the soundness of the policy. The city has committed hundreds of millions of dollars to initiatives that, in many instances, have been ill-conceived or poorly executed, yet these policies were enacted and significant tax reform elements are still under consideration.

There is much to learn from this experience. Any reform effort requires urgency, determination, and resilience. The forces that embrace and protect the *status quo* are formidable and focused, while the hearts and minds of those who might be marshaled to fight for change are often distracted by other pursuits. The ongoing work of *Philadelphia Forward* has established four fundamental lessons for this, or any, push for change.

Government does not *have to* make any changes. While it may be clear to any reformer that it is time for change, government is under no obligation to recognize the need for change or act to make change happen. It is far easier to stop government from building a highway through a residential neighborhood or to prevent government from demolishing a historic structure than it is to get government to build a recreation center or to toughen graduation requirements. For any reform to be successful, the imperative for change must be established in a way that makes it important to the elected officials who can make change happen.

Pessimism prevents positive policymaking. A general pessimism infects the political system — certainly in Philadelphia; perhaps elsewhere. There is an institutionalized attitude that positive policies will not generate desired results and, therefore, it makes more sense to make policies based on politics. If we do not believe that positive policies will make a difference, then our governmental decisions will be made to appease powerful political constituencies. For any reform to be successful, it must be seen as desirable by a broad audience to establish the political appeal of a policy change.

Voice is required to keep exit and loyalty in balance. Clearly, in a place like Philadelphia, we can see that some will benefit from the way things are and be loyal. Others will be frustrated by the situation and choose exit. It is the voice in the middle that holds the system together. Without enough voice, reform will be rare and exit will increase. If that happens, then those loyal to the system can act without opposition, which encourages more to exit. For any reform to be successful, it must generate the voice that prevents the exit that erodes the voice, and compels those loyal to the system to take notice.

The goal is to move the center. Any worthy tug-of-war battle is a back-and-forth effort to laboriously gain rope inch by inch. The flag in the middle moves in the winning direction, no matter how slowly it is moving. It may never be possible to truly *win* an argument, but one can build more support for one side of the argument. For any reform to be successful, the people in the middle must be convinced (one by one if necessary) to join the cause. If that happens, then the flag of reform will always be moving in the right direction.

In the spring of 2004, *Philadelphia Forward* established new voice in the local political system. We developed a new model for people to become educated about important issues and we created new conduits and mechanisms for people to express their views to their elected officials. The incredible outpouring of public voice in support of tax reform was truly unprecedented in recent memory and the faxes, emails, postcards, letters, and phone calls that flooded City Hall let elected officials know (loud and clear) how the public felt about this important issue.

The push for tax reform had three key ingredients to make change possible: the foundation of a good idea in the work of the Tax Reform Commission and the other efforts that preceded it; the leadership from elected officials necessary to move the ideas through the political process; and the tremendous support from individuals and organizations across the city.

In a very real sense, we have collectively taken the report of the Tax Reform Commission — which may have been destined to gather dust on a shelf — and we not only made it the center of a serious public policy debate, we developed near-universal support for tax reform among the city's elected officials. We are no longer debating whether we should reform our high and unfair taxes; we are debating when to reduce our burdensome taxes and which measures will make our taxes most fair. We have fundamentally changed the debate on this issue and we must now continue to push for final implementation of these initiatives.

Philadelphia Forward is an organization formed to educate about measures to transform Philadelphia — from a city that is growing older, poorer, and fewer — into a vibrant city that is a preferred place to live, work, and visit. Its primary focus will be to educate and inform regarding tax reform in Philadelphia. *Philadelphia Forward* will show that tax reform fosters neighborhood and community economic development, which will create jobs and opportunities for city residents and increase investment in neighborhoods throughout Philadelphia. In the longer term, *Philadelphia Forward* will use the model developed to push for tax reform to promote other policies that can help move the city in a positive direction. For more information about *Philadelphia Forward*, visit www.philadelphiaforward.org.

Philadelphia Forward thanks *Philadelphia Inquirer* political cartoonist Tony Auth and *Philadelphia Daily News* political cartoonist Signe Wilkinson for allowing us to reproduce their art work in this document.

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