The Chamber of Commerce for Greater Philadelphia Statement on Senate Bill 41

On March 16, 2017, the Chamber of Commerce for Greater Philadelphia's Executive Committee voted to oppose SB 41 and any related House Bills on the same subject at this time. Furthermore, the Chamber respectfully asks House and Senate leadership to hold the bill in abeyance until June 1, 2017 as we continue to advance and determine a positive outcome for our local tax reform efforts in the City of Philadelphia.

One of the highest public policy priorities for the Chamber of Commerce for Greater Philadelphia is our advocacy in the City of Philadelphia for wage and business tax reductions that promote economic growth and job creation in the city, and for businesses doing business in Philadelphia as well.

The Chamber strongly supports the actions of several City Councils – and four consecutive mayors - in approving local laws that have reduced wage and business taxes year by year – with a disruption caused by the 2009 recession – since 1992.

From its high-water mark of 4.96 percent in 1991, the wage tax on city residents has been reduced to its present rate of 3.92 percent.

Over the same five years, Mayor Kenney has proposed further reducing the city wage tax to 3.33 percent for non-residents and 3.73 percent for residents – bringing that tax to its lowest level in 40 years. The Chamber strongly supports these pro-growth reforms, worth $485 million, and encourages steps that would allow these reductions to be accelerated in the next several years to support continued growth and job creation in Philadelphia and the surrounding region.

City Council and the mayor have the power to set local tax rates, and the Chamber believes a first principle of local tax reform is that any action continuing these pro-growth reforms should first be taken *locally* – by Council and the mayor.

The proposed legislation SB 41 and anticipated House legislation on the same subject seeks to change Pennsylvania's Uniformity Clause to allow Philadelphia to set two different tiers of property tax – one for commercial properties and the other for residential homeowners. In exchange for higher commercial property taxes, the plan calls for corresponding reductions in wage and business taxes – designed to spur growth and job creation citywide.

Identical legislation passed the General Assembly in the last legislative session. A constitutional amendment would require passage this session followed by the matter being made in the form of a question for voters to decide in public referendum. If approved by the voters, enabling legislation would then be required to be passed by the General Assembly and signed into law by the Governor. The enabling legislation would require clarification of all related ancillary tax (and exemptions) directly related to Philadelphia. It is also possible that the enabling legislation once meeting the “single subject” threshold could address other tax related matters not contemplated in the Constitutional amendment process. Upon enactment the Local Constitutional Officer (City Council President) would need (but not compelled to) introduce the proposed local ordinance to put into effect the adjustments to commercial real estate and corresponding reductions in wage and business taxes.

With that context and history in mind, the Chamber has spent the last several months working with the Kenney Administration and City Council on a proposed five year tax reform plan that would be as follows:

1. **Lowering the cost of government**: Over the next five years, the Mayor and City Council should commit to a 5 percent reduction in the General Fund cost of government. This could be accomplished through the use of “target budget reductions” (used during the Rendell Administration) totaling 1% per year, with those reductions being built into the base on an annual basis and then with the following year’s target budget reduction applied to the new base.

2. **Pension reform**: Meaningful and substantial pension reform should be adopted in the next two years. Such reform can include asset sales or identification of revenues to shrink the unfunded pension liability, but such reform must also include reforms that meaningfully “bend” the benefits curve. Reliance exclusively on either option will not result in meaningful pension reform. In FY17, pension costs are budgeted to represent 15.4% of General Fund expenditures. The rapidly escalating costs of pensions, combined with the Pension Fund’s declining health – it is now 45% funded – make pensions perhaps the most significant financial challenge facing the City. In FY17, General Fund pension payments are projected to total $641 million compared to $558 million in FY16. While the City’s annual pension contribution has grown by over 230% since FY01, the Pension Fund’s funded percent has dropped from 77% to 45%.

3. **Real estate taxes**: Relative to the suburbs and to other cities, Philadelphia’s real estate taxes are low. Philadelphia’s property tax is 66% of suburban Pennsylvania median. As a matter of tax policy, as recommended by at least two City tax policy groups, real estate taxes could be increased. Politically, however, such tax increases are difficult to enact because of the impact on residential property, particularly low income residential property owners. In order to help implement this agenda, the Chamber would support real estate tax increases, with the impact of those increases on residential properties ameliorated by: (1) Adding to the exemptions/waivers that currently protect residential property owners, like the homestead exemption; and (2) Administratively, operate AVI to perform annual real estate reassessments on commercial properties, but triennial reassessments on residential properties.

4. **Wage and business taxes**: Wage and business taxes remain uncompetitive – as compared to other cities and the suburbs. Philadelphia’s wage tax is almost 4 times the regional median. BIRT has no suburban counterpart and adds 20% to 30% premium. They are also the most demonstrable barriers to economic growth. As a matter of tax policy, as recommended by at least two City

tax policy groups, wage and business taxes must be reduced – and at a rate faster than that set forth in the current Five Year Plan. These reductions are valued at a cost of $214.6 million_in the Five Year Plan. The Mayor and City Council should build into the Five Year Plan reductions in the wage and business taxes in Philadelphia funded with the increased real estate tax revenues generated pursuant to paragraph 3 above.

5. **U&O tax**: As part of this proposal, the Mayor and City Council should agree not to raise U&O tax rates.