Office of the City Controller
City of Philadelphia
ALAN BUTKOVITZ
Testimony at the Pennsylvania Senate
Local Government Committee
October 17, 2017

Good afternoon Chairman Wagner and members of the Senate Local Government Committee.

I am Alan Butkovitz, Philadelphia's City Controller, and I am here today to provide remarks regarding Philadelphia's new Sweetened Beverage Tax.

The Philadelphia Beverage Tax was initially advertised and promoted as a way to raise hundreds of millions of dollars to increase Pre-Kindergarten seats. When the tax was finally passed, the amount dedicated to Pre-Kindergarten was cut in half, and the remaining funds were committed to other projects and initiatives such as community schools and rebuilding parks and recreation centers.

While these are worthy projects and important to advancing our city, it was unnecessary to implement the Beverage Tax to fund them. While this new tax was anticipated to generate revenues to fund many programs – primarily Pre-Kindergarten - it is actually an unnecessary bait and switch with the City's Wage Tax.

In Philadelphia, wage earners who work in Philadelphia pay the Wage Tax at a rate based on their residency – the resident rate is 3.89 percent and the non-resident rate is 3.46 percent. These rates are scheduled to reduce over the next five years.

If the City would sustain its current Wage Tax rates, it would maintain more than $300 million over the next five years, which is more than enough to pay for Pre-K and still have remaining funds to support other projects and initiatives. Under the City's Fiscal Year 2018-2023 Budget Plan, $200 million from the Beverage Tax is supposed to fund new Pre-Kindergarten seats.

The reduction in one tax took away revenues that could have accomplished the same goals. Instead, the Beverage Tax is killing local businesses and is jeopardizing future access to fresh food stores in our city.

As we reported in our economic study of the impact of the Beverage Tax on grocery stores, sales at major stores fell 13 percent in the first six months of 2017. From the participating stores, the average sales for the period decreased from $21.1 million to $18.3 million in Philadelphia stores.

In addition, our latest report, which was issued yesterday, analyzed the impact of the tax on more than 700 businesses surveyed – including convenience and/or corner stores, retail, restaurants and bars and grocery stores of all sizes.

Seven years ago, former first-lady Michelle Obama spoke before students, business leaders and elected officials at Fairhill Elementary School – a school located in a low-income neighborhood in North Philadelphia - and she described the efforts to tackle food deserts through the Fresh Food Financing Initiative.

Mrs. Obama said, “Tackling the issue of accessibility and affordability is key to achieving the overall goal of solving childhood obesity in this generation. We can create the best nutrition education and physical education programs in the world, but if dinner is something off the shelf of a local gas station or convenience store because there’s no grocery store nearby, all of our best efforts are going to go to waste.”

Food deserts are present in Philadelphia. These are areas where it is difficult to buy affordable or good-quality fresh food. Several years ago, business leaders like Jeff Brown and Pat Burns, recognized the need to reduce Philadelphia’s food deserts and they opened grocery stores in low-income neighborhoods.

Several years ago, business leaders like Jeff Brown and Pat Burns, recognized the need to reduce Philadelphia’s food deserts and they opened grocery stores in low-income neighborhoods. This was a business move that many would not dare take. However, Jeff and Pat were not looking at their bottom line but rather looking at how they can lift up local communities.

Their ongoing work in Philadelphia is to be commended. They played a big role in reducing the number of people in Philadelphia without easy access to healthy food – from 301,397 in 2005 to 133,019 in 2014.

With that said, we need to keep Jeff and Pat and many others like them in our city. The city shouldn’t be able to break its social contract with these business leaders and reverse course after a few years.

We cannot allow a single tax, like the Beverage Tax, to eliminate the progress these businesses have made in our communities. Over the last few years, Philadelphia has had a habit of singling out businesses through tax hikes and not realizing the ultimate impact to the hard working families that support our communities.

Unfortunately, the initial goal of the Beverage Tax has fallen short. We signaled a few months ago that Beverage Tax revenues are not going to meet projections this year. I expressed my concern that if revenues continued on the same path, the City could fall behind its projections by $15 million or more a year. Over a five-year period, that’s $75 million – real money.

At Fairhill Elementary, Mrs. Obama also said that if a mom wanted to buy fresh fruit or vegetables for her family, she would have to get on a bus, navigate public transportation with big bags of groceries, or pay for a taxicab just to get to a supermarket in another community to feed her kids.

There are still many Philadelphia families who face this very same scenario every week.

If Philadelphia continues to implement tax burdens on community grocery store owners, our city will erase any progress that has been made in the last 13 years.

Thank you for the opportunity to testify today.