



“IN THE KNOW:” TAX HIKES TOP THE AGENDA

If you own a home or business in Philadelphia, the city’s next budget may well cost you hundreds of dollars extra in property taxes. And if you smoke cigars or enjoy chewing tobacco, prepare to open your wallet a little wider.

On Thursday, May 13, Philadelphia City Council will hold a hearing on raising the property tax rate by up to 9 percent and creating new tobacco taxes, both to help close the city’s \$150 million budget gap. These are alternatives to Mayor Michael Nutter’s plan to impose a \$300-per-household fee for trash collection and 2-cent-per-ounce sugary drink tax, neither of which is popular with Council members.

This is the third in a special series of the Committee of Seventy’s “IN THE KNOW” project, explaining the issues, politics, and consequences as City Council and the mayor hash out next year’s spending plan. The difficult decisions they make in the coming days will determine what kind of city we live and work in for years to come.

Why more taxes? Don’t we pay enough?

The city is in the third year of a major financial crisis brought on by the bad economy. By law, the city can’t run a deficit like the federal government does, so it has to cut spending or raise taxes, or both. But the mayor and Council don’t want to cut spending too steeply, in part because the 2011 election season heats up in a few months.

How can Council raise property taxes? I thought I heard something about a freeze of some kind.

You did, but that’s a little different. The system for determining how much your house is worth (which is the first part of calculating your property tax bill) is a gigantic mess and the mayor has said the current values won’t change for two years while the city tries to sort out the process. But there is a second part to your property tax bill, and that’s the tax rate that you pay once you know the value of the property. And that rate is what Council is thinking about raising.

Ok, so how much would my property taxes go up if Council’s bill passes?

The math to figure that out is mind boggling, so we’ll spare you. But here’s a real example: say you have a house that the city says is worth \$100,000. Your tax bill today should be around \$2,644.48. Under the largest tax hike proposal before Council, your bill would rise to \$2,882.48,



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or an extra \$238 per year. That's a hike of just over 9 percent. This property tax hike would apply equally to houses and businesses.

Will the hike be permanent?

City Council says no. It is just intended to get the city through the immediate budget crisis. Unless the Council says otherwise, the rate will automatically go back down to today's rate in 2013.

Isn't a 9 percent hike a lot?

Some people say so. Actually, Council had toyed with making it even steeper, more like 12 percent. That would have cost an extra \$320 on that \$100,000 house of yours. But Council members seemed to think that was too high and they dropped the plan in April. And there is yet another proposal under discussion that would cut the hike to something like 5 percent. We just won't know the final figure Council will support until after the hearing on Thursday.

But I don't pay anything like the tax bill in your \$100,000 example and yet my house is worth way more than that. What's going on?

You are not the only one that is confused by all this. We told you the city's system for figuring out the value of your home is a disaster. A big part of that mess is that what the city considers the "market value" has almost nothing to do with reality, so a house that could sell for \$500,000 in the real world might show up in city records as being worth, say \$150,000 or even less. You can see how messed up the system is by looking up your own house on the city website and comparing it with those of your neighbors. We think you'll be surprised: Phila.gov/Property Search.

This is crazy. How did the property tax system get this bad?

It's a long story, but the Board of Revision of Taxes (BRT), the agency that determines the value of city properties, has done a terrible job over the years. So bad, in fact, that City Council has asked Philadelphia voters for permission to do away with it completely. It's Question #3 on the May 18 primary ballot. Detailed explanations of the problem, and of the new agencies the mayor and Council want to create in place of the BRT, appear in another edition of "IN THE KNOW." Your vote is incredibly important, so we urge you to have a look here: [Our Views: Bye, Bye, BRT](#).



Why isn't it illegal to have a property tax system this bad?

You raise an important question. Lots of people wonder whether a system that is so out of whack violates the state constitution, which says that taxes have to be applied evenly among the people who pay them. This is one of the reasons that the mayor decided against recommending a property tax hike this year. We don't know yet how all the Council members feel about it.

Wait! If the city does a better job figuring out the real value of my house, will my tax bill skyrocket?

It may go up, but how much is an open question. The mayor and City Council know they will have to do something, perhaps even adjust the tax rate down a whole lot, to keep people from having their tax bills double or triple all at once. But anyway, that discussion is years away and doesn't have anything to do with the tax hike we're talking about, which is temporary.

When was the last time the city raised the property tax rate?

That was in 1989, 21 years ago.

But my tax bill has gone up since then. Why is that?

Remember we told you that there are two parts to this – what the city says your house is worth, and how much they make you pay based on that value. The tax rate may not have gone up, but the city has been quietly raising that first part, the estimate of what properties are worth. Change either side of the equation and your tax bill goes up.

Why has it been so long since the rate was changed?

There is a lot of complicated political history behind this, but the simplest way to look at it is that as long as property values keep rising (as they did all through the last two decades, sometimes by a whole lot), the city keeps making more and more money, even if the tax rate stays the same. Property tax rate hikes are politically unpopular, so it is easier for office holders to just let your property tax bills drift up naturally as property values rise.



So why hike my property tax rate now?

Property values have stopped rising, and in many cases gone down quite a bit, due to the huge economic downturn. Experts predict that we will not see big gains in property values again for a long time, even if the city ultimately fixes the system for determining property values. So if the city wants to get more money out of property taxes, Council will have to increase the tax rate.

Didn't the mayor try raising property taxes before?

He did, only a year ago. He suggested a one-year hike of 19 percent, followed by a second year at 14.5 percent more than current rates, after which the rates would have returned to their old level. Council members hated that idea then and killed it.

So Council has flip-flopped this year, right?

At least some members have. Time will tell if there are enough votes to pass the property tax hike. Supporters seem to believe they have no choice this year since the economy continues to be bad (it's getting better, but slowly and unsteadily, which means it will be a while before things get better for the city budget).

How much does the city make on our property taxes?

About \$408 million per year, or about 10 percent of all the revenue the city generates (the biggest tax is the wage tax, which brings in \$1.1 billion, or about 28 percent of all city revenue). Remember, though, that most of the property tax bill you pay every year goes to the public schools and the city can't touch it. The schools get more than \$600 million every year from property taxes, but that's entirely separate from the property tax hike we're talking about, which will all go to the city, not the school budget.

Do other places pay as much in property taxes as we do?

This may come as a surprise, but Philadelphia has a relatively light property tax burden, according to an analysis last year by a think tank called The Tax Foundation. Of the 775 largest counties in the U.S., Philadelphia ranks in the bottom half in terms of the size of tax bills and the relationship between the value of your house and the amount you pay.



It's good that Philadelphia's property taxes are relatively low, right?

Not really. This statistic may sound like a good thing, but experts say it's not – it shows that the city relies way too much on the wage tax and way too little on property taxes, which tends to drive jobs out of the city (a company can move jobs out to save money, but residents can't move their houses).

How does Philadelphia compare with the property taxes in the suburbs?

Tax rates are generally higher in the suburbs, particularly in New Jersey. But of course, how much you actually pay also depends on the value of your house, so if you live in a wealthier suburb that also has higher property tax rates, then you will pay a whole lot more in property taxes than you would in the city itself.

Enough about the property tax mess. Tell me about the tobacco tax?

This is a much smaller deal since it will only raise about \$6 million a year. Council wants to tax "smokeless tobacco" products, like the stuff baseball players chew, at 36 cents per ounce (most chewing tobacco cans are a little more than an ounce, so it would add about 43 cents to the cost). Council's bill would also add a 3.6 cent tax on each cigar and a 36 cent tax on a pack of rolling papers, which are used for hand-rolling cigarettes using loose tobacco.

What about cigarettes?

Cigarettes are already taxed by the state, which means the city couldn't add its own tax without state permission (and the state let the city raise its sales tax last year so it might not be in the mood to help out again on a new tax).

You mean chewing tobacco and cigars aren't already taxed?

No. Pennsylvania is the only state that doesn't tax smokeless tobacco and one of two that doesn't tax cigars. Since the state doesn't tax them, the city can. The governor, however, is proposing a state tax on these items this year. If it passes, the city would have to drop the local tax.



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[This all sounds like a lot of effort. Wouldn't it just be easier for Council to raise the taxes the mayor wants instead?](#)

Probably, but they won't. Council members say the mayor's flat trash fee is unfair because it would hit poor property owners hardest. And since it isn't based on how much trash you generate, it would in effect punish people who don't put out much garbage. Council members also say the sugary drink tax is too steep, so it would cost jobs and hurt businesses that sell these drinks. On top of that, Council isn't too anxious to give the mayor a victory. It is possible Council members may go for a smaller soda tax, but they will still need to raise other taxes or cut some spending, or both.

[Are these the only tax hikes we'll face this year?](#)

That's not clear yet. As we mentioned, Council has been talking about a lower property tax hike, perhaps combined with some much smaller version of the mayor's soda tax and trash fee. There's also been some talk about a business tax hike, though there is no specific proposal yet. It appears that Council is looking at ways to do a bunch of little tax hikes rather than one or two big ones – a way to avoid upsetting anyone too much in advance of the 2011 elections.

[Do I have any say about all these tax hikes?](#)

Yes, indeed. You can sign up to speak at Council's hearing on the property tax (That's at noon on May 13 in the Council chambers in City Hall). Council is also collecting written testimony about the budget from the public. And Council members do pay attention to the calls, letters, and emails they get from city voters, so you're always free to let them know what you think.

For help on how to contact your Council member, please see our guide to the members:

[Resources: City Council](#)

This is the third installment in the special series of budget "IN THE KNOW" features we plan to release over the next few weeks. The Committee of Seventy will put out future editions as new issues arise and the budget process develops. Our first edition is a primer on the larger process and it is available here: ["In the Know:" What You Need to Know About the City Government](#). The second, a look at the way other cities are meeting the budget crisis, is available here: ["In The Know:" Government Can Get Creative](#).

Please feel free to e-mail your comments, or requests for Q&As on other topics you care about, to info@seventy.org. We look forward to hearing from you.



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