Liquor Revenue Necessary to Prevent 3,783 Layoffs in School District of Philadelphia

PENNSYLVANIA Budget and Policy Center

Pennsylvania Budget and Policy Center

412 N. 3rd St, Harrisburg, PA 17101 • www.pennbpc.org • 717-255-7156

June 5, 2012 | Updated: June 12, 2013

Philadelphia City Council is considering several revenue changes that require authorization by the General Assembly to address the funding crisis at the School District of Philadelphia. The request comes after the district has taken extraordinary measures to reduce expenditures, including the elimination of almost 1,000 school nurses, counselors, classroom aids, and other positions in 2012. In May, the School Reform Commission adopted a budget that eliminates art and music programs and most school sports, and incorporates the closure of 23 schools. On June 7, district administration sent layoff notices to 3,783 employees. New revenue from the city and state is necessary to avoid the most harmful cuts and avert the long-term damage that will be done to the current cohort of public school students.

Philadelphia has suffered much deeper state funding cuts than all other districts, including other urban districts.

The School District of Philadelphia (SDP) has been held largely responsible for the fiscal crisis that has existed since 2011-12. Many urban school districts have similar structural financial problems, largely driven by declining total enrollment, higher special education costs, and growing charter school enrollment.

Philadelphia schools were cut $1,327 per student, the highest of any district in the state.

The largest and most significant factor in Philadelphia, however, is the impact of the reductions in education funding enacted by the General Assembly for the 2011-12 school year. SDP received a reduction of $287 million, a 22% cut from the prior year. Philadelphia received almost one-third of the dollar value of cuts to the state's 500 school districts. The value of the cut is almost dollar for dollar the SDP's expected 2013-14 deficit.

Philadelphia's per-student cuts were by far the highest of any district in the commonwealth. The SDP sustained cuts in classroom funding[1] in 2012-13 of $1,327 per student, while the state average was $459.[2] The state cuts particularly affected high-poverty school districts, like Philadelphia, with 80.9% of students eligible for free and reduced price lunch[3] in 2010-11. The contrast with the cuts imposed on high-wealth, low-poverty neighbors is striking: Tredyffrin-Easttown in Chester County ($37 per student, 5.6% poverty), Radnor in Delaware County ($38 per student, 8.0% poverty), Lower Merion in Montgomery County ($40 per student, 8.4% poverty) and New Hope-Solebury in Bucks County ($56 per student, 4.4% poverty).

The cuts to high-poverty districts in particular drove many into acute financial distress. To begin to address the consequences of the deep, unexpected cuts in 2011, the General Assembly authorized increases in Basic Education Funding for 16 school districts in June 2012. Philadelphia was excluded from that additional funding.[4]

The argument that SDP and other school districts were at fault for using temporary federal funds for operations misses a significant fact – expired federal funds were replaced almost dollar for dollar with state funds in other

[1] Classroom funding is defined as Basic Education Funding (BEF) with American Recovery and Reinvestment Act (ARRA) dollars, reimbursement of payments to charter schools, Accountability Block Grants, Educational Assistance Program tutoring grants, School Improvement Grants, and Basic Education Formula Enhancements.

[2] As compared to 2010-11 funding levels.

[3] Poverty is defined as the share of students eligible for free and reduced price lunch, 185% of the federal poverty level.

[4] Chester-Upland SD, York City SD, Allentown City SD, Reading City SD, Erie City SD, Lancaster City SD, Upper Darby SD, Pocono Mountain SD (Monroe), Harrisburg City SD, Stroudsburg Area SD (Monroe), Coatesville SD, Lebanon SD, Steel Valley SD (Allegheny), Sto-Rox SD (Allegheny), Westmont Hilltop SD (Cambria), and Jeannette City SD (Westmoreland).

departments but not in education. This has precipitated the education funding crisis that is endemic across the commonwealth. In 2011-12, the same year large education cuts were imposed, $187 million in temporary federal funding was replaced with state dollars in the Department of Corrections budget, and $900 million in temporary American Recovery and Reinvestment Act (ARRA) funding was replaced with state dollars in the Department of Public Welfare budget. This protected prisons, hospitals, nursing homes, managed care companies, and many other services from the deep cuts that were forced on school districts.

The responsibility for paying for student services should not be borne alone by people with the least means, but by all businesses and residents.

City Council is considering several proposals: authorizing the SDP to collect a $2-per-pack cigarette tax (Bill No. 130446), increasing the liquor by the drink tax from 10% to 15% (Bill No. 130447), and modifying the Use and Occupancy Tax rate and offering exemptions (Bill No. 130161).

The proposal that has generated the most agreement thus far is the one that primarily affects the poor. It is well documented that lower-income individuals smoke at higher rates than other income groups and, as a result, will bear disproportionately this tax. The new tax rate would not be the highest in the nation but will raise the tax from $1.60 to $3.60 per pack – equal to Rhode Island but below New York State's $4.63-per-pack tax.[5]

This tax is a double-edged sword. It has clear public health benefits, as the increase is large enough to induce a number of individuals to quit smoking. That is a welcome effect, but it will also cause the tax revenue to decline over time as cigarette purchases decline or as individuals travel outside the city for their purchases. At the same time, this tax proposal adds to the already high financial burden on low-income Philadelphians.

The liquor tax increase had little effect on Philadelphia establishments and employment.

A second proposal would increase the liquor by the drink tax rate from 10% to 15%. The drink tax operates like an additional sales tax and is generally passed along to the consumer rather than paid by the business, which in most instances simply collects the tax.

Because Philadelphia is a regional hub with a significant tourism industry, much of the drink tax is exported to non-Philadelphia residents. The tax base for this levy is very broad and includes tourists, convention visitors, and every resident who visits a bar or restaurant, all of whom will be helping to prevent these deep and devastating cuts to schools. The 5% tax, which amounts to 25 cents on a beer or 50 cents on a glass of wine, is an investment in the city's long-term economic success.

While there was opposition to the liquor by the drink tax when it was first debated in 1996, the evidence is clear that the tax did not have the detrimental effect that opponents feared. Data from the U.S. Bureau of Labor Statistics for 1997-2000, the three full years after the tax was imposed, show that the number of food and beverage establishments in Philadelphia grew by 105 to 2,974, and the city's share of all eating and drinking establishments in the state remained at 4%. The number of new jobs in this sector in Philadelphia grew by 26%, 8,120 jobs during this period. In fact, Philadelphia had 44% of all the job growth in eating and drinking establishments in the entire state between 1997 and 2000. See Figure 1.

Between 1997 and 2000, Philadelphia added 8,170 new jobs in bars and restaurants, 44% of all new jobs in the sector in PA.

The Pennsylvania Budget and Policy Center looked at the number of drinking establishments in the city between 2001 and 2011 to determine if there was a particular effect on bars. During this period, the number of establishments declined in the state as a whole, in the four suburban counties and in Philadelphia, indicating a

[5] Federation of Tax Administrators, State Excise Tax Rates on Cigarettes, January 1 2013.

common trend, clearly driven by factors other than the tax, which was unique to Philadelphia.[6] In contrast, while the number of employees declined in the state and suburbs by 20%, employment in Philadelphia during this period grew by 3%. See Figure 2.

It has been argued that the rise in BYOB establishments is a result of the drink tax, but a large part of that particular effect may be attributed to the high cost of liquor licenses, which are significantly more expensive here than in other parts of the state.[7]

Businesses and residents all benefit from good schools and an educated workforce, and both should contribute to the effort to prevent harmful cuts that put that goal at risk.

Conclusion

The city has taken a number of steps to increase its support of schools, including changing the share of city property tax levies that go to the schools from 45% to 50%, increasing property tax millage, and allocating other city tax dollars. The city and school district are seeking authorization to generate new revenue from city residents and visitors to prevent deep cuts to critical instruction and student supports, and to avert the long-term damage that will be done to students. The General Assembly has authorized other local tax levies and should do the same for Philadelphia.

Figure 1.

Robust Growth in Restaurant and Taverns After Drinking Tax Enacted				
Eating and Drinking Establishments				
Philadelphia and Pennsylvania 1997-2000				
	Establishments		Employment	
	Philadelphia	Pennsylvania	Philadelphia	Pennsylvania
1997	2,869	20,952	31,645	302,285
1998	2,842	20,976	32,793	306,840
1999	2,862	21,047	35,961	312,552
2000	2,974	21,847	39,765	320,541
Number Increase	105	895	8,120	18,256
Percent Increase	4%	4%	26%	6%
Source: U.S. Bureau of Labor Statistics Quarterly Census of Employment and Wages				

Figure 2.

Employment in Bars Increases After Drinking Tax Enacted		
Trends in Drinking Establishments and Employment 2001-2011		
	Establishments	Employment
Philadelphia	-33%	3%
Suburban Counties	-35%	-20%
Pennsylvania	-32%	-20%
Source: U.S. Bureau of Labor Statistics Quarterly Census of Employment and Wages		

The Pennsylvania Budget and Policy Center is a non-partisan policy research project that provides independent, credible analysis on state tax, budget and related policy matters, with attention to the impact of current or proposed policies on working families.

[6] Allegheny County implemented a 10% liquor by the drink tax in 2009.
[7] http://www.philadelphiarestaurants.com/article.cfm/article/442/Philadelphia-s-BYOB-Phenomenon