

## Legislation Text

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**File #:** 170126, **Version:** 0

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Authorizing Council's Committee on Finance to hold hearings regarding the City's cigarette tax and the tax rate which will ensure maximum revenue for the School District of Philadelphia

WHEREAS, On June 13, 2013, City Council approved Bill No. 130446-A, "Amending Title 19 of The Philadelphia Code, entitled 'Finance, Taxes and Collections,' by providing for a City cigarette tax and by authorizing the School District to provide for a School District cigarette tax, all under certain terms and conditions." This bill authorized the Board of Education of the School District of Philadelphia to impose an excise tax at a rate of \$0.10 per cigarette to fund public schools. The \$2-per-pack cigarette tax, which is in addition to a \$2.60 state tax, creates a total tax of \$4.60 on a pack of cigarettes or little cigars in Philadelphia; and

WHEREAS, The cigarette tax was implemented in October 2014 to supplement public funding for the School District of Philadelphia. Many City schools receive inadequate funding and the revenues received from the cigarette tax were expected to help provide equitable education on a sustainable basis. Under state provision, if the District failed to receive \$58 million from cigarette tax revenues per fiscal year, the state would cover the deficit; and

WHEREAS, When the tax was first enacted in Fiscal Year 2015, the City's Finance Office originally projected revenues of \$63.4 million, but actual revenues only reached \$50.2 million. However, the School District of Philadelphia's budgeted projection of \$49.5 million for FY 2015 was closer to the actual revenue obtained. Similarly in FY 2016, tax revenues were projected to be as high as \$77.5 million, but actual revenues fell short at \$58.7 million. The revenue from FY 2016 was also below SDP's budgeted projection of \$60.1 million; and

WHEREAS, Most recently in FY 2017, the cigarette tax was projected to bring in revenues of \$75.1 million. However, according to the Office of the City Controller's Monthly Economic Report in November 2016, the cigarette tax only generated \$24.8 million in the first six months (July to December 2016) of FY 2017. This reduced the predicted yearly total by \$25.5 million to only \$49.6 million. The expected cigarette tax revenue shortfall is also \$4.9 million below SDP's budgeted projection of \$54.5 million; and

WHEREAS, The decline in cigarette tax revenues has been realized at both state and City level, but according to the Controller's report, while the state of Pennsylvania has seen a 11.5 percent decline in sales, the city of Philadelphia has had a much steeper 23 percent decline; and

WHEREAS, Assuming Philadelphia has similar smoking patterns to those throughout the state, then half of the City's decline in cigarette tax revenues may be a result of consumers purchasing cigarettes in other counties that do not have the \$2-per-pack City cigarette tax in place; and

WHEREAS, Lowering the cigarette tax may decrease out-of-county purchases by Philadelphia residents and keep tax revenue in Philadelphia to benefit local public schools. A reduced tax rate for cigarettes may generate greater tax revenue and close the shortfall between City projections and actual revenues; now, therefore, be it

RESOLVED, BY THE COUNCIL OF THE CITY PHILADELPHIA, That it hereby authorizes Council's Committee on Finance to hold hearings regarding the City's cigarette tax and the tax rate which will ensure maximum revenue for the School District of Philadelphia.