



CITY OF PHILADELPHIA

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ROB DUBOW
DIRECTOR OF FINANCE

June 19, 2018

Dear Representative:

As you know, we implemented the Philadelphia Beverage Tax (PBT) to support three anti-poverty initiatives: expanding quality pre-K (PHLpreK), creating Community Schools, and making historic investments in our parks, recreation centers and libraries, a program known as Rebuild.

The PBT generated nearly \$79 million in its first 12 months. Those funds have provided over 2,700 three and four-year-old children with access to free, quality pre-K and have connected 6,000 primarily low-income students and their families to 11 Community Schools, which expand supportive services and programs that our children need to succeed in the classroom. PHLpreK has also created more than 250 jobs at more than 80 pre-k providers citywide.

The City Controller's report -- which claims that PBT funding was not being used for its intended purposes -- is misleading and inaccurate. We have said from the start, when the tax was first proposed to City Council two years ago, that the collections would rest in the General Fund. That is a basic budgetary process for treating taxes. We also said from the start that, in the first couple of years, as the programs funded by PBT revenues ramp up, revenues would exceed expenditures, so the first few years would show a surplus that would rest in the General Fund. Starting in FY21, the costs of the expanded programs will exceed projected revenues, and the General Fund will cover the remaining costs, consistent with the initial approach to funding these initiatives.

It also should be noted that in the Fall of 2016, when the beverage industry began to challenge the tax in court, we chose to temporarily refrain from full implementation of the programs—a decision that was shared publicly—as an act of fiscal responsibility and transparency. The temporary hold on these programs also caused an increase in the amount held in the General Fund.

While fees or reimbursements can be held in a separate account, it is a standard accounting principle to collect taxes in one fund, which is why the PBT revenue is being held in the General Fund. This, however, does not mean that the PBT funding will be used for other programs or initiatives. I would like to make clear again that all of the PBT funding in reserve is being used solely as originally proposed. This was stated publicly when PBT was proposed two years ago, and again during last year's budget process, and on March 1st of this year during Mayor Kenney's annual budget address.

Although our initial expenditure plan has shifted due to ongoing litigation, the City is keeping diligent records of how much PBT funds we are accruing, spending and reserving ensure that the revenue is used as planned over five years.

When the lawsuit is resolved, the City plans to:

- Expand the number of PHLpreK seats to 5,500 by 2022;
- Create 20 Community Schools by 2022; and
- Start the first of three borrowings for Rebuild projects which will fund upgrades to 64 parks, recreation centers, and libraries in the first phase.

We expect that by Fiscal Year 2021, costs of the expanded programs will exceed projected revenues. At that point, the General Fund will help cover the remaining costs, consistent with our initial approach to funding these initiatives.

We implemented this tax to raise the revenue required to educate our city's children and strengthen our communities. We have no other dedicated funding source available for these pathbreaking initiatives, and I thank you for your consideration as Philadelphia aims to reduce poverty and improve educational opportunities for our children.

Sincerely,

A handwritten signature in black ink, appearing to read 'Rob Dubow', with a long horizontal flourish extending to the right.

Rob Dubow
Finance Director