

Sugary Drink Tax Background information and FAQs

The Problem: For decades, our city has been held back by the same problems: a failing school system, deep poverty and struggling neighborhoods.

- Nearly 80% of all Philadelphia schools, including charters, are in Pennsylvania's lowest performance tiers. And, currently, 46% of kids enter Kindergarten unprepared.
- Our failure to properly educate our children has reverberated throughout our economy, weakening our workforce, forcing families to flee and keeping businesses from relocating to Philly.
 - In a recent survey, tech start up founders said that Philadelphia's school system was a bigger deterrent from locating here than our wage tax
 - Two-thirds of Philadelphians currently looking for work test at the 4th to 8th grade level in reading, writing, and math – leaving them largely unable to secure family sustaining jobs
- The inequity in neighborhoods outside Center City is also staggering and has serious repercussions for small businesses and City spending on social services
 - Nearly half of Philadelphians live in what are classified as "distressed" zip codes. In these zip codes, there is high poverty, few people with high school degrees, and marginal if any increase in businesses in recent years – this directly inhibits the growth of our commercial corridors and small business outside of Center City
 - Over a quarter of our population lives in poverty, relying on hundreds of millions of dollars in government services while contributing little to regional economic growth.
 - Most people know that Philadelphia currently has the largest poverty rate (26%) of the country's big cities, but even more staggering is that nearly half of our population lives on \$35,000 or less.
- Though not as frequently talked about, our pension fund is among lowest funded among the nation's largest cities.
 - Less than 50% funded, it jeopardizes our city's fiscal health.
 - It also consumes an increasing share of our budget preventing us from funding any new major initiatives

The Solution: If we want to bring real change to our neighborhoods, our school system and our city's most vulnerable, we need to implement serious, radical, ambitious policies. The Mayor has proposed five, interlinking policies that work together to change the status quo: expand quality pre-k, create 25 community schools, invest in our neighborhood parks, rec centers and libraries, invest in the Council President's green jobs plan and inject \$26 million into our pension fund. These initiatives would all be paid for through sugary drink tax of 3 cents per oz.

1. **Expand quality pre-k for 10,000 students.** The sugary drink tax would allow us to invest \$256 million into expanding quality pre-k over the next five years.
 - For a city plagued by devastatingly high poverty, quality pre-K is an equalizer. Neuroscientists attest that 80-90 percent of a child's brain is developed in the first five years of life. Quality early education can enable our most vulnerable children to break the cycle of poverty by capitalizing on the tremendous learning potential of three and four year olds during this critical time period in their development.
 - For a city with a struggling public school district, quality pre-K is a stabilizing fiscal force. Countless studies demonstrate the effectiveness of quality pre-K to reduce the need for special education services, thus saving millions of dollars in costs over the long term. According to the City's Pre-K Commission, the School District of Philadelphia could save approximately \$72 million over the length of a grade cohorts' K-12 school years, if all children participated in quality pre-K. This is real money that can be better spent on other school priorities like staffing, resources, facility improvements and extra-curricular activities.
 - In addition to producing cost-savings, expanding access to pre-k is also critical to dramatically changing the academic outcomes of the School District. According to the William Penn Foundation, the percentage of 4-year-olds with proficient academic and social skills more than tripled after participating in the state's pre-K program. Other research indicates that quality pre-K contributes to increased high school and college graduation rates. For example, children who participated in the Chicago Child-Parent Center were 29% more likely to graduate from high school.
 - The economic benefits are far reaching as well. For a city with a weak tax base, quality pre-K investment is a powerful economic engine on par with transportation and infrastructure investments. A ReadyNation report frequently cited by the Economy League studied the multiplier effect of quality pre-K investments and found that for every \$1 spent, at least \$1.79 is generated in local spending. It also found that for every 20 jobs created in the Pennsylvania early education sector, five jobs are created outside the sector.

2. **Create 25 community schools.** The sugary drink tax would allow us to invest \$36.8 million into creating 25 community schools over the next five years.

- Community schools are public schools where a dedicated coordinator strategically aligns largely already-existing services (provided by the government or other service providers) and integrates them directly into the school where students can access them most easily
- In many cases, these services are also available to parents and the larger community, making the school a neighborhood center and increasing parental engagement and community investment in the success of the school
- The services provided in each school will vary based on the needs of that community, but the goal is the same: allow educators to focus on teaching, and students to focus on learning instead of concentrating on hunger, healthcare or even in some cases shelter.
- Effectiveness of community schools can be seen all over country: In one of the most high-poverty areas of Los Angeles, there is a community high school where 99 percent of graduates go to college. The city of Cincinnati was able to shrink its racial and socioeconomic achievement gap from 14.5 percent to 4.5 percent; In Texas, two schools located in Austin's most high-poverty neighborhood went from the brink of closure to becoming two of the highest performing schools in their city
- They're also cost-effective: The Children's Aid Society (CAS) of New York found that New York City's Community Schools have a return on investment of between \$10.30-\$15 for every dollar invested. These results are corroborated by those of a 2012 economic-impact study by EMSI, a leading economic-modeling firm, which showed that every dollar invested in the network of more than 100 schools operated by the nonprofit organization Communities in Schools generated \$11.60 of economic benefit for the community.

3. **Rebuild critical community infrastructure**: The sugary drink tax would pay for the bond issuance (\$56 million over 5 years in debt service) to invest \$300 million in improving the infrastructure of our existing parks, libraries, and rec centers. Investing in those spaces is critical and cost-effective because it impacts public safety, our education system and job creation. These investments will also support expansion of quality pre-k and community schools.
- The Parks and Rec Department (including the Free Library) is the largest provider of after school programming for Philadelphia's children, which is a critical service not just because afterschool expands their educational resources, but also because 19% of all juvenile crimes are committed in the afterschool programming hours between 3 and 7 p.m.
 - According the National Center for Education Statistics, students who participate in extracurricular activities have a 15% higher school attendance rate than non-participating students, and are more likely to have a higher GPA
 - After the School District, the Free Library is the largest provider of pre-school programming, critical for keeping parents and care-providers in the workforce.
 - The Free Library is critical to closing the digital divide which benefits students and job seekers of all ages. At all locations, there is free WiFi and computer training courses.
 - The City expects the rebuilding efforts will create hundreds of construction jobs
 - Improved infrastructure may also support additional long-term programming jobs in the community
 - Studies show that proximity to nature and green spaces may reduce violence. When the City and the Fairmount Park Conservancy invested \$5 million in Hunting Park, crime went down 89% within a half mile radius of the park over the next three years. Burglaries and thefts in a Philadelphia district also dropped after police helped neighborhood volunteers clean up vacant lots and plant gardens -- falling from 40 crimes each month before the cleanup to an average of only four per month afterward.
 - In areas where rec centers or libraries are co-located with public schools, these infrastructure investments will allow these community spaces to serve as hub for community school services as part of the Mayor's effort to establish community schools throughout Philadelphia.
 - Fortifying this infrastructure can also create space for pre-k classes as part of the Mayor's effort to expand access to quality pre-k in low-income communities

4. Fund the Council President's PEA 10,000 jobs program

- The Campaign's \$22.7M commitment will allow the City to finance \$100 million in bonds to be used make city buildings sustainable and energy efficient. The plan calls for reducing energy costs by 20% through energy efficiency retrofits, which will result in \$16M of savings per year.
- Currently, the City spends approximately \$78 million a year to heat, cool, and operate its facilities. Dollars saved by these efficiencies can be shifted from avoidable building operating costs to other critical needs.

5. Inject \$26 million into our pension fund. While the Mayor will continue to work towards more systemic reforms with our unions and members of our pension board, it is also important that we take advantage of every opportunity to put every dollar we can towards addressing this critical financial challenge.

FAQs:

Isn't the sugary drink tax really a tax on the poor?

- The Soda Tax would be taxing distributors, which does not mean that all consumers will face higher costs of soda. In a recent study completed three months after Berkeley initiated their SSB tax, many stores kept prices the same. In sales of multipack sodas or liter bottles, less than half of the tax was passed onto the customer
- Soda tax revenue is being used to fund programs that will specifically help low-income communities, namely pre-K, community schools & rebuilding parks and rec facilities
 - In one of the most high-poverty areas of Los Angeles, there is a community high school where 99 percent of graduates go to college.
 - The city of Cincinnati was able to shrink its racial and socioeconomic achievement gap from 14.5 percent to 4.5 percent through community schools
 - In Texas, two community schools located in Austin's most high-poverty neighborhood went from the brink of closure to becoming two of the highest performing schools in their city
 - The Free Library is critical to closing the digital divide which benefits students and job seekers of all ages.
 - Of the six million visits the Free Library sees each year, a third are job seekers in need of assistance
 - Studies show that proximity to nature and green spaces may reduce violence. When the City and the Fairmount Park Conservancy invested \$5 million in Hunting Park, crime went down 89% within a half mile radius of the park over the next three years.
 - Burglaries and thefts in a Philadelphia district also dropped after police helped neighborhood volunteers clean up vacant lots and plant gardens -- falling from 40 crimes each month before the cleanup to an average of only four per month afterward.
 - Quality pre-K is an equalizer for kids born into poverty. Neuroscientists attest that 80-90 percent of a child's brain is developed in the first five years of life. Quality early education can enable our most vulnerable children to break the cycle of poverty by capitalizing on the tremendous learning potential of three and four year olds during this critical time period in their development.

- Don't let the lobbyists fool you. The soda industry is already purposefully targeting poor, communities of color.
 - Lower-income African American and Latino neighborhoods had more outdoor ads (billboards, bus and bus shelters, store window posters) for sugar drinks than lower-income white and higher income neighborhoods in 2009.
 - In 2013, Hispanic youth were 93% more likely to visit beverage company websites compared with all youth, while African American youth were 34% more likely to visit those websites.
 - Coca-cola placed 38 million ads for products or promotions on children's websites in 2013. African American children and teens saw more than twice as many television ads for sugar drinks than white peers in 2013.

Will the sugary drink tax hurt small businesses?

- Small businesses will avoid job loss and maintain their profit margins by selling more tax-exempt beverages, like diet sodas, coke zero, and bottled water – all of which are already in their suppliers' products line. In fact, many small businesses are already shifting their purchasing in that direction, given that consumption of sugary drinks dropped 16% in Philadelphia b/t 2007 and 2013.
- People predicted these same dooms-day scenarios of business closures during both the liquor tax. Employment did not slow down after a liquor tax was instated, bars did not close. In fact, Philadelphia's restaurant and bar scene has grown since the tax.
- Access to pre-k also generates an increase in local spending. A ReadyNation report frequently cited by the Economy League studied the multiplier effect of quality pre-K investments and found that for every \$1 spent, at least \$1.79 is generated in local spending.
- Investments in neighborhood parks, rec centers and libraries have also been shown to drive private, economic investment

Will the sugary drink tax cause big business to leave the city?

- The beverage industry has already adjusted for a shift in consumption away from sugary beverages. They have been diversifying their products both in the beverage (diet sodas, coke zero, coke with stevia) and non-beverage division.

- As an example, PepsiCo's most profitable division is the FritoLay North America division of non-beverages. It generated 21% of their net sales in 2013, and it is said that their revenue growth is said to continue to outgrow the beverage segments going forward.
- Businesses will avoid job loss and maintain their profit margins by continuing to sell alternative beverages and other products that are already in higher demand.
- The two largest unionized beverage truck driver employers in Philadelphia are Pepsi and Coke. Their drivers deliver all products under the Pepsi and Coke label which includes not only sugar-sweetened beverages, but also water. Quantity of items delivered depends on the demand of the item. If the soda tax results in a lower demand for soda, the beverage companies and truck drivers will still have overall demand for beverage items, and may even see an increase in demand for water.
- The restaurant industry is already trending away from reliance on soda profits. Applebee's will become the first family-dining restaurant chain to remove soda from its children's menus, joining fast-food chains McDonald's, Burger King, Wendy's, and Dairy Queen
- Philadelphia's five largest employers won't be impacted by this tax – many will actually benefit directly from the five policies the sugary drink tax will fund. Our top five employers are the Federal Government, City of Philadelphia, Trustees of the University of Pennsylvania, School District of Philadelphia, Children's Hospital of Philadelphia.

Aren't there other sources of funding for these programs?

- Increasing wage or business taxes would adversely impact our entire economy
- Property taxes have gone up four times in the last five years and it's not fair to ask working families to pay more while Big Soda already pays a smaller tax rate than the average American
- There also isn't \$1 billion in tax delinquency uncollected. That's a fake number being touted by the Big Soda companies. Most of that uncollectable because it's decades old, the person has passed away, the business has gone bankrupt or the individual is completely unable to pay – remember half of Philadelphians live on \$35,000 or less
 - The Mayor's budget proposes investing in numerous different tools to recover more of this delinquent debt but it still won't be enough to get the \$95 million in revenue we'll require annually to support these programs
- We also just can't "find the money in the budget." We cut significant waste during the Recession and we are cutting several million more from this year's budget, but we can't

fund the programs necessary to help our economy grow and turn around our schools without a new revenue source.

- While still worth pursuing for other initiatives, PILOTs also won't provide the amount of revenue we need. Even in Boston where PILOTs are very successful, the city gets approximately \$28 million on an annual basis. The cost of pre-k alone on annual basis is \$60 million

Why did Jim Kenney vote against the soda tax in 2010 and 2011?

- The 2010 soda tax would have been collected at points of sale, which raised concerns about its enforceability and legality.
- The new proposal would collect the tax from distributors, who would have to be licensed by the city. The city Law Department has vetted that method and found no objections.
- Additionally, where as in the past this tax was proposed to fill a budget hole, the Mayor is proposing it to pay for new programs our city wants and needs to address our education system, high poverty, and struggling neighborhoods

What about funding for the School District?

- This funding goes to support community schools and pre-k, which are both critical initiatives to turning around our schools. The City has increased local funding for the District by 49%, 400 million annually, over the last four years for the District. We need to employ other, more offensive strategies as well.

What happens to these programs if people drink less soda? Is the revenue source stable?

- As we saw with both the liquor and the cigarette tax, while this tax may cause consumption to drop, it won't eliminate consumption and eventually the decline in consumption due to the tax will level off
- Our revenue projections assume a 55% decrease in consumption – that's far more than consumption has ever dropped anywhere else, this is a highly conservative estimate
- Our revenue projections also take into account the decline in consumption of soda that has been happening naturally for last several decades as people learn more about the health effects