

Testimony to the Philadelphia Tax Reform Commission, Subcommittee on “Other Taxes”

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By way of this testimony, I want to present new information regarding the effectiveness of the Philadelphia Sweetened Beverage Tax, more commonly known as the “soda tax.” My goal is to lay out what is known about collections, the revenue generated from the tax, and, most importantly, the impact of the tax on the sectors impacted by the tax.

What is clear from the data is that assertions tying the soda tax to the decline of revenues or jobs in the beverage, or related industries, are not backed up by any verifiable data. Thus, it’s premature to conclude that the sweetened beverage tax caused a decline in beverage related jobs. In contrast, there is clear and verifiable data that demonstrates that the proceeds of the soda tax have directly caused growth of Philadelphia’s workforce since its imposition and that growth is fueling additional economic growth into the future

Revenues Generated by the Tax

The Sweetened Beverage Tax became effective January 1, 2017. When the tax was enacted, it was projected to generate at most \$91 million a year.

- Since enactment, collections have reached 82.5% of the amount projected for annual collections before the tax was enacted. Annually, collections average \$74 million, accounting for a one-year dip to \$69 million during COVID (2019)

The total revenue generated from the Philadelphia Beverage Tax since its inception is approximately \$481 million. This includes revenue from fiscal year 2017 through fiscal year 2023.

Uses of the Tax Revenues

The Controller’s Office enumerates how the soda tax revenues collected through 2022 are paying for the special initiatives it was designed to advance \$158.1 million, or 38.6% of the total revenue, on PHLpreK, the city’s universal pre-k program;

- \$19.1 million, or 4.7% of the total revenue, on Community Schools;
- \$4.1 million, or 1.0% of the total revenue, on program administration;
- \$22.1 million, or 5.4% of the total revenue, on debt service for Rebuild; and
- \$2.4 million, or 0.6% of the total revenue, on Parks and Recreation, Rebuild.

Jobs Created by the Tax

Investments in PHLpreK, Rebuild, and Community Schools have generated new jobs. This testimony focuses only on the positions created in the pre-K sector, which are additive to those also created because of the Rebuild and Community Schools programs.

- A 2021 study found that somewhere between 850-1350 permanent jobs were created among the PHLpreK programs that expanded to enroll and serve 3,600.
- Since 2021, the number of children in PHLpreK programs funded by the soda tax has grown to 5,250. Children First estimates that with this number of children served, based on required staffing ratios in these programs, new pre-K positions supported by the tax revenues are between 1,241 and 1,973.

The availability of PHLpreK has directly increased work opportunities for families living in the city's lowest wealth communities. Parents reported:

In FY21 and FY22, 57% of parents said they could return to work because of access to free pre-K.

In FY22, 36% of the parents stated it assisted with financial hardship and 57% of the respondents said they could work longer or different hours.

Here is one statement exemplifying the potency of universal pre-K to spur economic growth: Diana Johnson-Henry, Director of General Services with the Defender Association of Philadelphia shared,

"The PHLpreK program allowed me to send my youngest son to a pre-K center I trust without worrying about the financial burden of his tuition. Because he was enrolled in a safe and enriching environment during the day, I was able to earn a bachelor's degree in 2017 and an MBA in 2018. I also earned a Master's of Education in 2020 and am now the Director of a unit within a large company."

Effects of the Tax on the Beverage Industry

The industry asserts that the soda tax is responsible for a decline in the consumption of the taxed beverages. They claim that the beverage industry, distributors and retailers have experienced fewer sales which in turn has led to revenue and jobs loss since the tax was imposed.

However, research shows that it's impossible to draw those conclusions about industry revenues or job changes associated with the tax for the following reasons:

1. In the first year that the tax was imposed, retailers increased the price of sweetened beverages by more than the tax rate making it impossible to isolate the impact of the new tax.
2. The industry points to outdated studies that evaluate only the first two years of the tax regime, as such there is no data that accurately reflects the impact of the tax since it was imposed seven years ago.

1.a Sweetened Beverage Prices Rose Significantly More than the Value of the Tax

An analysis of the impact of the soda tax examined 2 million purchases across supermarkets, chain pharmacies and corner stores in Philadelphia in 2018 and 2019.¹ That research found that the average price per ounce increase in sweetened beverages across these retailers exceeded the amount of the tax.

- Across all retailers the price of sweetened beverages rose by an average of 1.7 cents per ounce while the sweetened beverage tax rate was 1.5 cents per ounce.
- The most popular subcategories of sweetened beverages were marked up even higher immediately after the tax was imposed: 2 cents per ounce increase for sweetened sparkling water and sports drinks, 2.1 cents per ounce for sports drinks, 2.1 cents per ounce for energy drinks and 2.4 cents per ounce for sweetened coffee drinks.

The price hikes that exceeded the tax occurred across all types of retailers. For instance, one study looked at beverage sales across 48 chain pharmacies in Philadelphia, across 1188 unique beverages purchased in 231,065 transactions from 2018 and 2019 in those stores.² The data showed:

- Chain pharmacy retailers boosted prices by a low of 1.6 cents an ounce to a high of 2 cents per ounce compared to the actual cost of the tax of 1.5 cents per ounce.

Studies of independent retailers like corner stores also found that they increased prices higher than needed to recoup the cost of the tax immediately after the tax was enacted.

- Data collected at 56 independent retailers, one year after the tax was imposed, found that sweetened beverages rose by 1.81 per ounce or a 120.4% tax pass-

¹ [Sustained Impact of the Philadelphia Beverage Tax on Beverage Prices and Sales Over 2 Years - PMC \(nih.gov\)](#)

² [Philadelphia Beverage Tax and Association With Prices, Purchasing, and Individual-Level Substitution in a National Pharmacy Chain | Health Policy | JAMA Network Open | JAMA Network](#)

through compared to the prices charged for those drinks the year before the tax was imposed ³.

The fact that retail establishments increased sweetened beverage prices higher than the cost of the new tax makes it impossible to draw accurate conclusions on the isolated impact of the tax on beverage sales.

2.a No Data Points to Job Losses in the Sector

Regarding the assertion that the beverage and related industry workforce was negatively affected by the tax, the industry relies in its testimony solely on outdated data that *projected* an employment impact of the soda tax referencing from 2017 before the tax was imposed.

Specifically, they rely on a study that a private firm, under contract to the American Beverage Association, estimated the tax would cause a loss of 1,300 jobs across all impacted commercial industries, inclusive of 30 jobs expected to be eliminated by Canada Dry Delaware Valley.

However, it's impossible to review the data or projections for accuracy because it seems the study does not exist. A review of Google Scholar, Oxford Economics and the American Beverage Association websites and other research databases refer to the study, but no working links or abstracts can be found.

Other mechanisms to confirm the data would be to examine the labor force of the companies effected in Philadelphia. However, since the supermarkets and Canada Dry Delaware Valley are privately held companies it's not possible to access their revenue and workforce data.

In contrast, an in-depth review on the employment effects of the new tax by researchers associated with the Philadelphia Department of Health found that the imposition of the soda tax had no impact on employment generally or within the effected sectors in the 12-month period after the tax was imposed.⁴

- Changes in filings for new unemployment benefit claims for supermarkets, soft drink manufacturers, all potentially affected industries (e.g., groceries, retail stores, restaurants), were not statistically significant different when comparing Philadelphia to its surrounding counties following implementation of the beverage tax.

³ [bleich_2021_oi_210410_1622770082.69664.pdf \(silverchair.com\)](#)

⁴ [Unemployment claims in Philadelphia one year after implementation of the sweetened beverage tax \(plos.org\)](#)

While there is no valid data to support a claim of unique Philadelphia-specific job loss in the beverage industry, there is precise and available data demonstrating that more than a thousand individuals are now working in new jobs in Pre-K programs funded by the tax.

Investments in Pre-K are Proven to Have Had a Positive Economic Impact on Philadelphia Already

Given the absence of any conclusive data on the impact of the soda tax on the beverage or related industry jobs, it's reasonable to assert that the other demonstrable social and economic benefits likely had a more positive impact on the city and its residents than any projected employment declines for which there is apparently no empirical support

Not only were new jobs created because of the tax, directly. Indirect employment was plausibly affected because of PHLpreK, which enabled thousands of parents to afford to continue to work or enter the workforce since the tax was created. Further, University of Chicago research conclusively demonstrates a substantial economic multiplier associated with the pre-K investments of 13:1 for every dollar spent on high quality pre-K.⁵ In sum, the use of the sweetened beverage tax for pre-K was and continues to be a smart policy that promotes economic growth.

Should the commission decide any action is needed with respect to the Sweetened Beverage Tax, the commission could request that a comprehensive and up-to-date study examining the full spectrum of direct economic impacts of the tax on the beverage and related industries as well as a full examination of the economic benefits attributable to the investments in early learning of more than 5,000 young children annual, the 73 completed Rebuild projects at recreation centers, parks and libraries and the 20 Community Schools.

⁵ [Why-Invest-High-Return-on-Investment.pdf \(pantheon.io\)](#)