

# CITY OF PHILADELPHIA PENNSYLVANIA

OFFICE OF THE CONTROLLER

**The Economic Impact of the Philadelphia Beverage Tax**

A Survey of the Affected Business Community

October 2017

City Controller  
**Alan Butkovitz**



*Promoting honest, efficient & fully accountable government*



## The Economic Impact of the Philadelphia Beverage Tax: A Survey of the Affected Business Community

### Executive Summary

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#### Purpose of Conducting Beverage Tax Survey

Throughout his tenure as Philadelphia’s fiscal watchdog, City Controller Alan Butkovitz has made it a priority to understand the barriers faced by businesses in terms of daily operations as well as the broader business climate. Since the Philadelphia Beverage Tax is an unusual levy on a single category of product that cuts across many segments of the retail sector, the Controller’s Office decided to survey businesses to get a sense of the impact of the tax at the neighborhood level, from the perspective of individual business owners.



#### Data and Methodology

The Controller’s Office contacted approximately 1,600 businesses throughout the City, reaching more than 50 commercial corridors over a four-week period. The majority of surveys were collected in the field through street teams consisting of staff from the City Controller’s Office. Additionally, surveys were completed via telephone by contacting registered businesses within the City and some surveys were completed online through the survey link.

The survey asked businesses to assess their 2017 revenues from Quarter 3 and Quarter 4 in comparison to the same two quarters of 2016. This included the revenues from the period of January through June. The survey also asked questions that identified any issues impacting sales as well as the future outlook for the business due to the new tax.

#### Findings

Of the 1,600 businesses contacted to participate in the survey, 741, or almost half, agreed to complete the questionnaire. Some of the findings from the businesses’ responses included the following:

- 88% of businesses reported Year-to-Year revenue losses, with 57% reporting losses in excess of 10%
- 62% of businesses attributed “most” or “all” of the decline in revenue to the implementation of the Beverage Tax.
- 40% of businesses surveyed indicated they would have to make “significant changes to keep the doors open.”

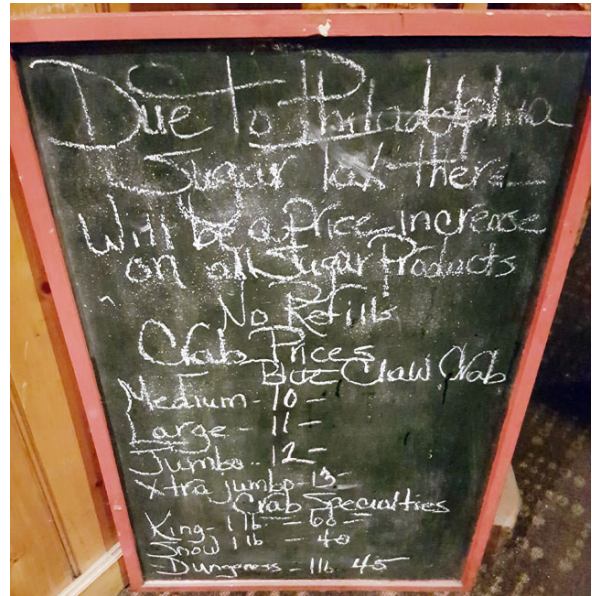
#### Conclusion

Based on the responses provided from the various business sectors across the City of Philadelphia and a prior study on the impact of wages reported by grocery store owners, the City Controller’s economic analysis continues to indicate that the Beverage Tax has needlessly impacted specific businesses in the city.

## Overview

On January 1, 2017, the City of Philadelphia imposed a 1.5 cent-per-ounce tax on sweetened beverages. It was the first tax in the nation to apply to both sugar- and artificially-sweetened beverages, and is imposed on distributors, not at the point of sale. The stated purpose of the levy is to finance the City's push for universal access to pre-kindergarten, a major planned upgrade of City parks, recreation facilities, and libraries (known as "Rebuild"), as well as continued stabilization of the City's pension funds.

The burden of the tax, projected by the administration to generate roughly \$90 million a year, was meant to fall on a relatively small number of distributors, who could, in theory pass only a portion of the burden down the supply chain; in practice, by all accounts prices of affected beverages rose sharply throughout the City. In a recent report, the City Controller found a substantial negative impact of the tax on the grocery industry; these findings prompted a broader survey of the retail community to ascertain its impact on all types of establishments that sell affected beverages.



## Methodology and Survey Outreach

In order to understand the effects of the Beverage Tax on business revenues, operations, and future outlook, the Controller's Office designed a nine-question instrument. It then created a large and representative sample of businesses subject to the tax - primarily restaurants, grocery stores, and convenience stores. To view the survey instrument, refer to Appendix A.

To ensure a geographically representative sample, the Controller's Office used GIS to map a list of businesses in the appropriate NAICS categories provided by the Department of Revenue. From September 6 through October 2, 2017, Controller's Office staff visited and phone-banked over 1,600 businesses in 45 zip codes across the City.

In addition to deploying Street Teams, the City Controller's Office utilized several communications outreach methods to distribute the Beverage Tax Survey. The objective was to broaden the survey reach to include as many types and sizes of businesses through traditional media, social media and email marketing. More importantly, the communication outreach methods provided the City Controller's Office with the ability to broaden the reach of random businesses to complete the survey.

### *Traditional Media*

The City Controller announced September 6, 2017, that he would be conducting an economic impact study of the Philadelphia Beverage Tax by surveying businesses of all sizes throughout the city. A press release was distributed to all media outlets outlining the City Controller's goal and strategy to reach businesses. Additionally, the press release included the short link, [bit.ly/BEVTAXSURVEY](http://bit.ly/BEVTAXSURVEY), for the media to access the survey and distribute.

*“The study will provide a better understanding of the effects the new tax is having on our local economy,” said Controller Butkovitz. “We will be analyzing if there has been any impact to businesses’ revenues, sales, changes in regular operations and the future outlook.”*

*Email Marketing*

The City Controller’s Office developed graphics and messaging to drive audiences to the Beverage Tax Survey. Two emails were distributed to a distribution list the Controller’s Office maintains. The first email was distributed immediately after the City Controller’s announcement and the second email was sent the last week the survey data was being accumulated.

*Social Media*

The City Controller’s Office utilized its social media platforms throughout a four-week period to advertise the Beverage Tax Survey and gather feedback from the online community. The platforms included Facebook, Twitter and Instagram. Content for postings included articles relating to the City Controller’s announcement, messages targeting businesses in specific neighborhoods, and photographs of the Street Teams distributing the surveys to businesses.

# The Philadelphia Inquirer

By Laura McCrystal September 6, 2017

## Survey begins, study released on Philly soda tax impact

After citing reports of layoffs and reduced hours for employees in the beverage industry, Philadelphia City Controller Alan Butkovitz announced Wednesday that he will survey businesses in the city to assess the economic impact of the city’s tax on sweetened drinks.

“We will be analyzing if there has been any impact to businesses’ revenues, sales, changes in regular operations, and the future outlook,” Butkovitz said in announcing the survey, which will involve 1,000 businesses of different sizes.



As a result of these outreach efforts, almost 750 businesses completed the survey, a response rate of 45 percent.

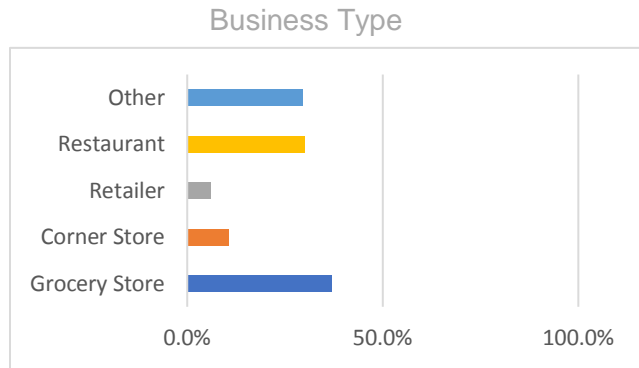
# Survey Results

## Aggregate

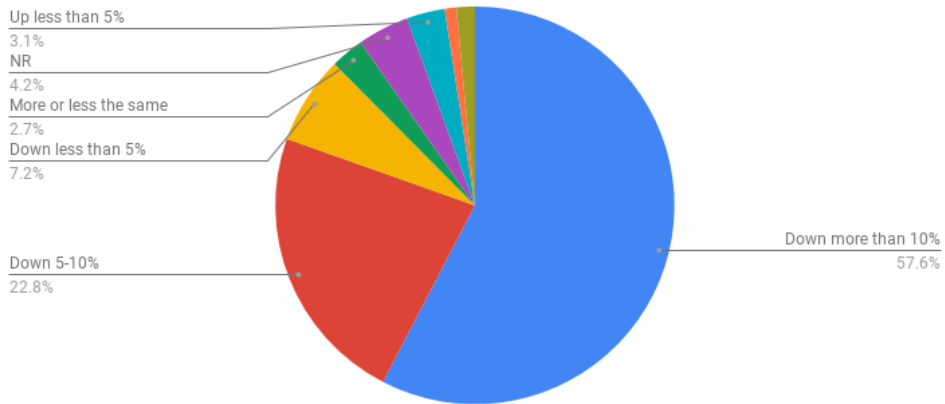
As the figures below show, the survey focused primarily, but not exclusively on groceries, corner stores, and restaurants; surveys were collected from businesses in 45 of Philadelphia’s zip codes. Within this overall universe, 57 percent of businesses reported that revenues in the first half of 2017 were down by more than 10 percent compared to the same period in 2016. Additionally, 88 percent of businesses reported at least some amount of a revenue decrease.

Of the 649 businesses that reported some drop in Year-to-Year revenue, 62 percent attributed “most” or “all” of the decline to the implementation of the Beverage Tax. The majority said they modified their product lines in response to the tax; only 12 percent said it was “business as usual.”

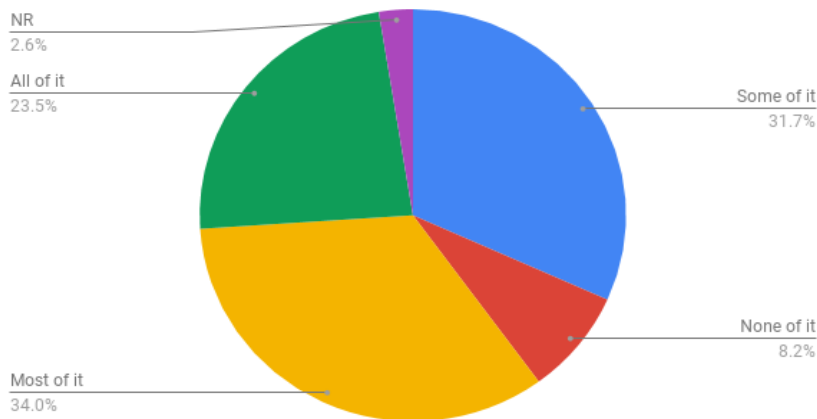
When asked about the future outlook for the business, 40 percent said they would have to make “significant changes to keep the doors open.”



Universe-Reported Year-to-Year Revenues

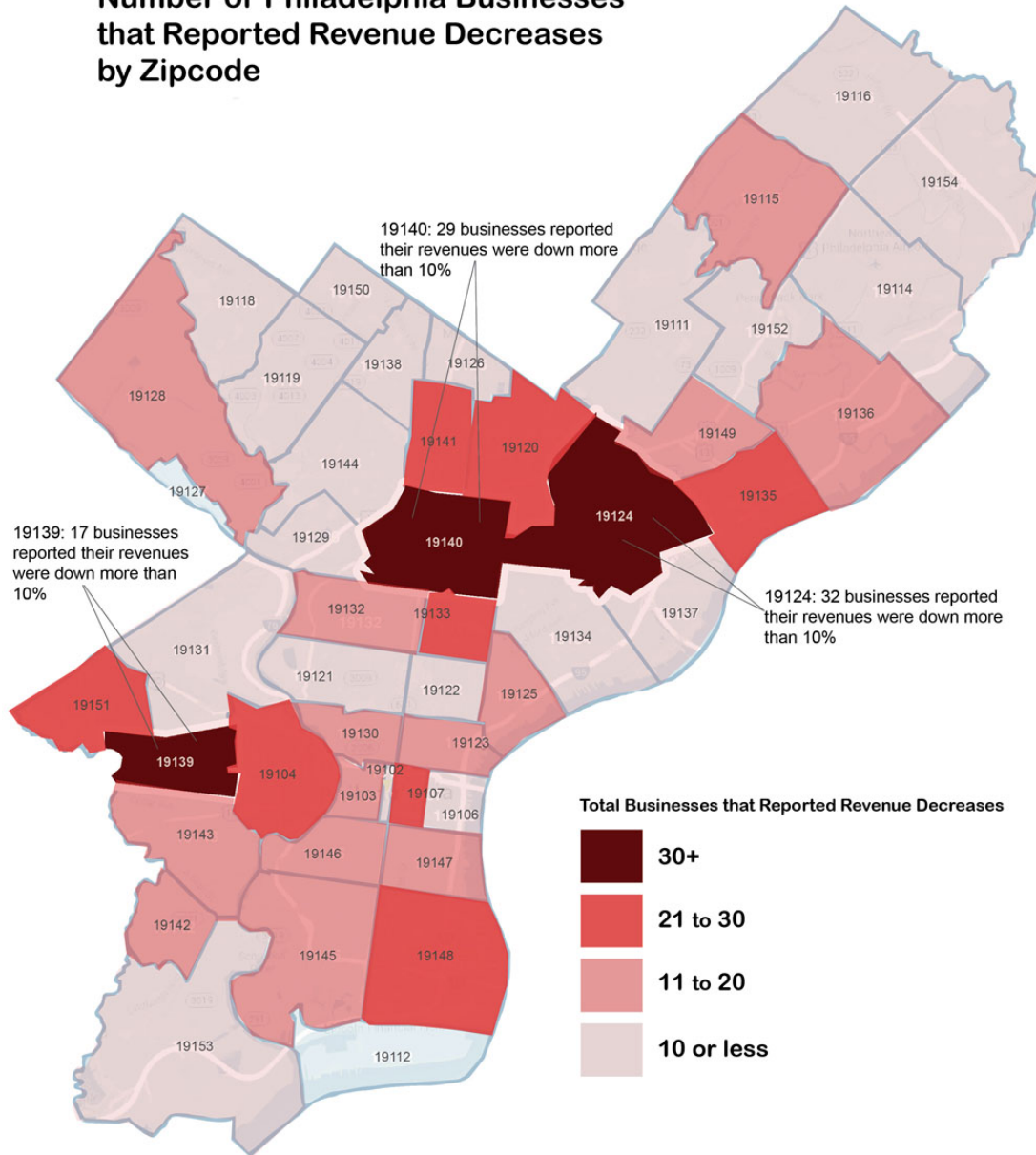


Universe-Reported Revenue effected by Beverage Tax



Businesses that reported revenue decline varied throughout the city. The graphic below shows the number of Philadelphia businesses that reported a decrease of revenue by zipcode. There were 649 businesses that indicated a loss. Sixty-one businesses reported revenues stayed the same or experienced an increase in revenue. Additionally, 31 businesses did not provide information about their revenues. Refer to Appendix B for a breakdown.

### Number of Philadelphia Businesses that Reported Revenue Decreases by Zipcode

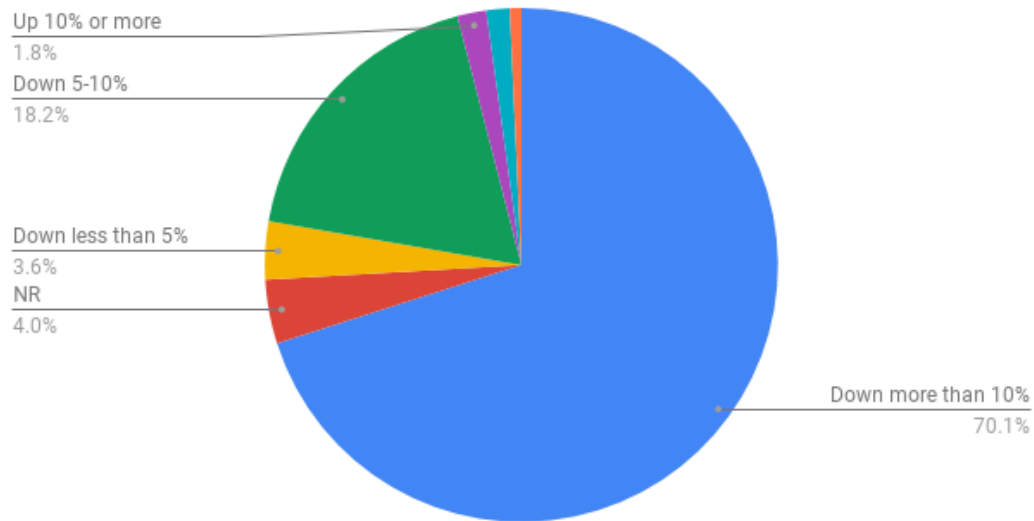


## Disaggregated Data

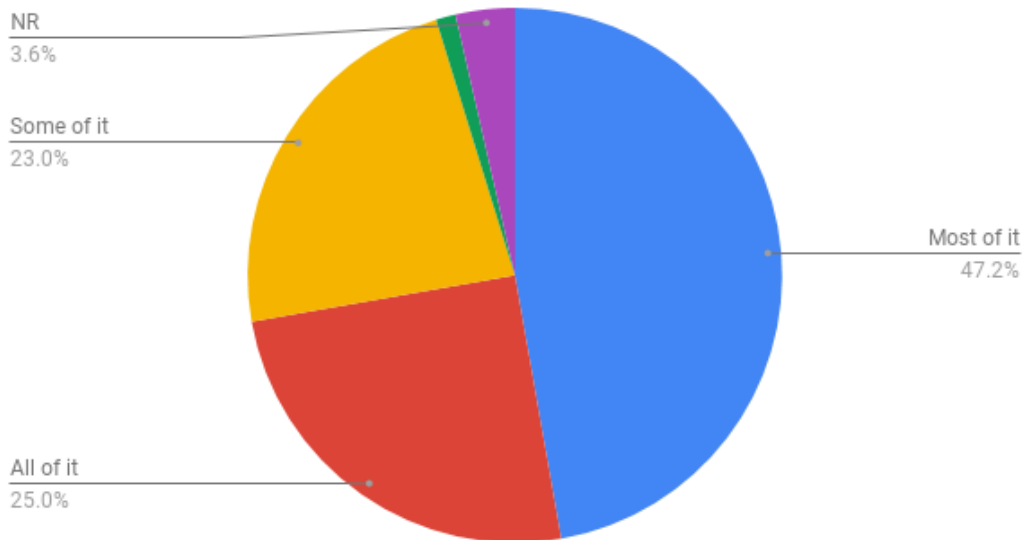
### Grocery Stores

In accordance with prior work done by the Controller's Office, the grocery industry reported the most severe impact as a result of the tax. Of the 274 grocery stores surveyed, 242, or 88 percent, indicated that year-to-year sales were down at least five percent, with 192, or 70 percent, indicating losses of 10 percent or more. Of the 252 stores indicating some revenue loss, 182, or 72 percent, attributed most or all of the decline to the Beverage Tax.

#### Grocery Stores -Reported Year-to Year Revenues



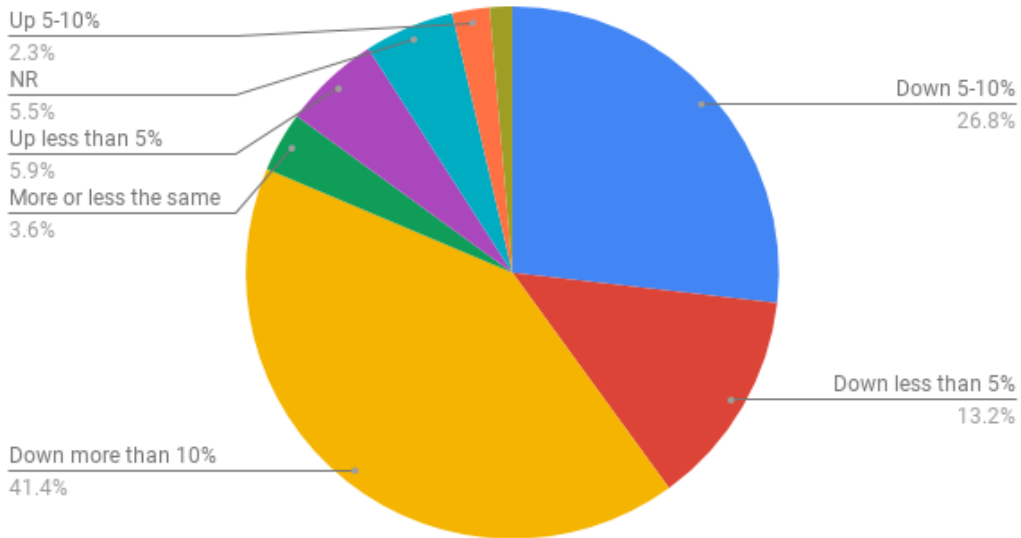
#### Grocery Stores - Impact of Soda Tax on Revenue Loss



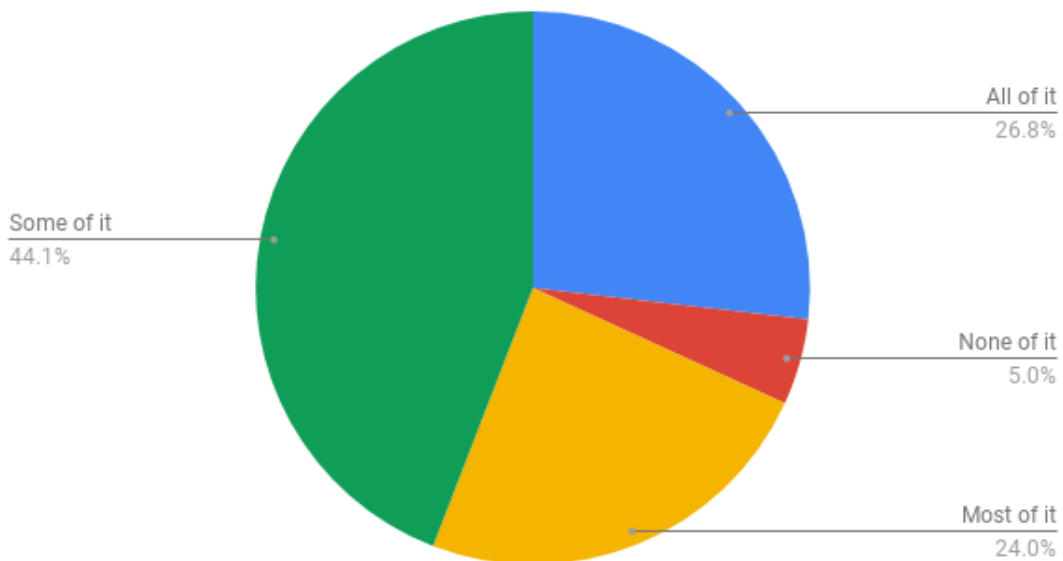
## Restaurants

Of the 220 restaurants surveyed, 150, or 68 percent, indicated that Year-to-Year sales were down at least 5 percent, with 91, or 41 percent, indicating losses of 10 percent or more. Of the 179 stores indicating some loss of revenue, 51 percent attributed most or all of the decline to the Beverage Tax.

### Restaurants -Reported Year-to-Year Revenues



### Restaurants -Soda Tax Impact on Revenue Loss

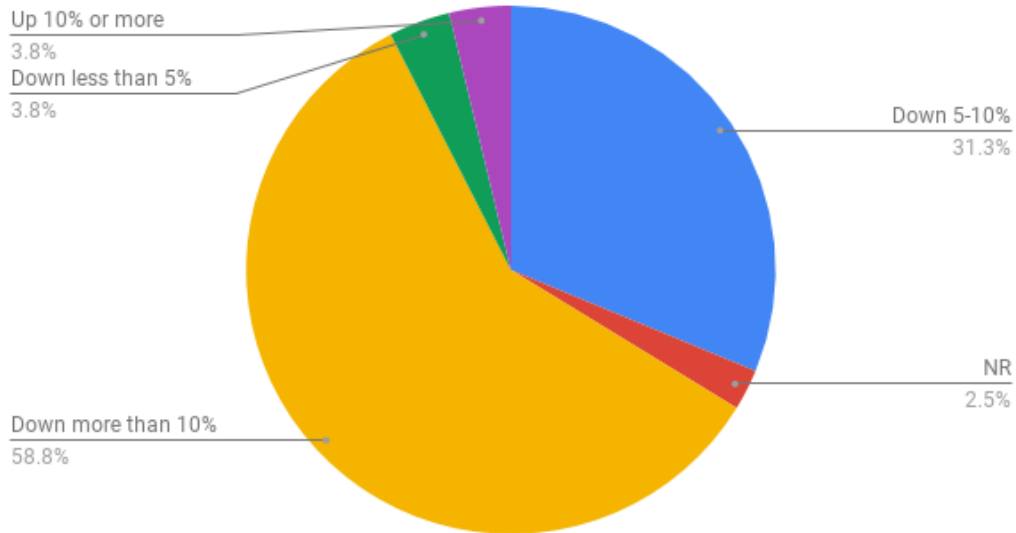




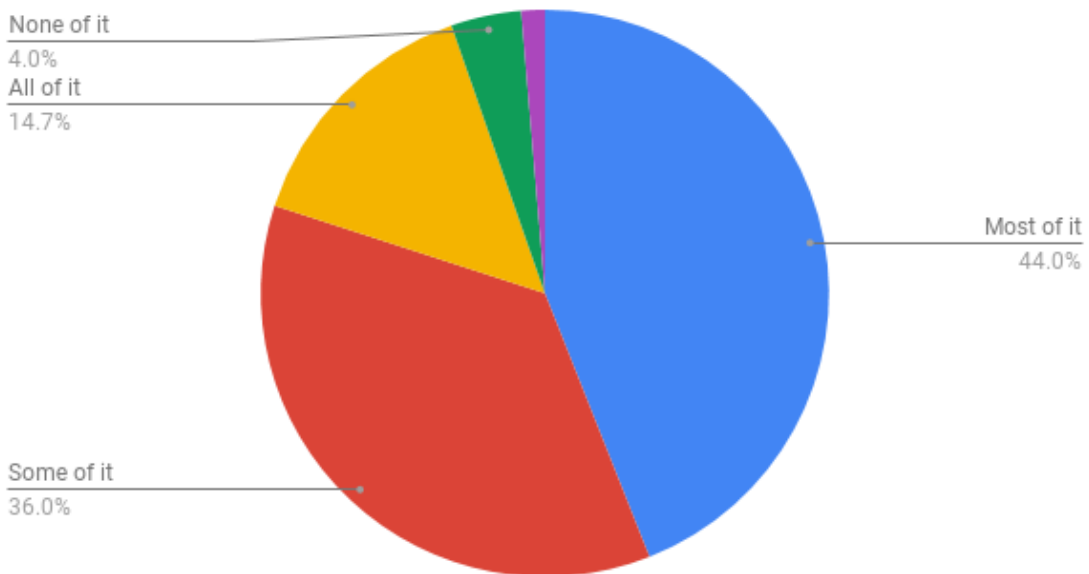
## Corner Stores

Of the 80 Corner Stores surveyed, 72, or 90 percent, indicated that Year-to-Year revenues were down at least 5 percent, with 47, or 59 percent, indicating losses of 10 percent or more. Of the 75 stores indicating some revenue loss, 44, or 59 percent, attributed most or all of the decline to the Beverage Tax.

### Corner Stores -Reported Year-to-Year Revenues



### Corner Stores -Impact of Soda Tax on Revenues



## Conclusions

The survey data strongly indicates that the overwhelming majority of businesses that carry products subject to the Philadelphia Beverage Tax feel a significant impact as a result of the tax. See Appendix C for additional comments from businesses. Restaurateurs, grocers, and owners of corner stores throughout the City place the onus for revenue losses in 2017 squarely on the new levy.

Of course, until BIRT returns and Wage Tax reconciliations are filed in the spring of 2018, there is no way to independently verify the claims made by these business owners, but it is clear the tax is viewed negatively by this constituency. Importantly, the tax seems to be impacting behavior and orientation toward the future; many business owners seem apprehensive about the viability of their enterprises in the near and medium term. Insofar as business confidence is an important variable in the City's business climate, the Beverage Tax seems to have had strongly detrimental effects.

Based on the responses provided from the various business sectors across the City of Philadelphia and a prior study on the impact of wages reported by grocery store owners, the City Controller's economic analysis continues to indicate that the Beverage Tax has needlessly impacted specific businesses in the city.

**Yo Mayfair!**

**NEW PHILADELPHIA BEVERAGE TAX  
IMPACT YOUR SALES?**

**We Want to Hear from You!**


**TAKE THE SURVEY AT  
BIT.LY/BEVTAXSURVEY**

Office of the City Controller - City of Philadelphia [www.philadelphiacontroller.org](http://www.philadelphiacontroller.org)

# Appendix A: Survey Instrument

## BEVERAGE TAX IMPACT SURVEY

### HAS THE PHILADELPHIA BEVERAGE TAX IMPACTED YOUR BUSINESS?



**Your Input is Valuable to Understanding Philadelphia's Economy**

Office of the Philadelphia City Controller - verification information will remain confidential

If you own more than one business or have more than one location, please complete one survey per location.

**\* 1. Verification Information**

Name	<input type="text"/>
Position	<input type="text"/>
Business Name	<input type="text"/>
Street Address	<input type="text"/>
ZIP/Postal Code	<input type="text"/>
Email Address	<input type="text"/>
Phone Number	<input type="text"/>

**\* 2. Business Type**

**3. Sales comparison: How do total revenues from January through June 2017 compare to the same two quarters in 2016?**

Down more than 10%	Down 5-10%	Down less than 5%	More or less the same	Up less than 5%	Up 5-10%	Up 10% or more
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

**4. How much of the revenue gain/loss do you attribute to the Beverage Tax?**

All of it

Most of it

Some of it

None of it

**5. What are the top issues impacting your businesses' sales? ( Please rank: 1 having the most impact; 5 having the least )**

::	<input type="text" value="1"/> Other competitors such as brick and mortar and/or online retail
::	<input type="text" value="2"/> Modified orders to include other products excluded from the new Beverage Tax
::	<input type="text" value="3"/> Adjusted staffing levels and/or hours
::	<input type="text" value="4"/> New Beverage Tax
::	<input type="text" value="5"/> No change - sales are the same

6. What, if any, has been the impact on your overall business decisions? (Select all that apply)

- Changed order quantity for grocery and or beverage products
- Modified orders to include other products excluded from the new Beverage Tax
- Adjusted staffing levels and/or hours
- No impact - business as usual

7. What is the future outlook over the next year for your business?

- Significant changes in order to keep the doors open
- Slight adjustments, nothing major
- Uncertain how business will sustain operations
- No change- business as usual
- Other: Please Explain

\* 8. Did you complete this survey as a representative for your business?(by clicking Yes, you are acknowledging all information reported is accurate & true.)

- Yes
- No

9. Additional Comments

10. Would you like to remain in contact with our office about this issue.

- Yes
- No

Next

## Appendix B: Number of Businesses Reporting Revenue Decrease by Zipcode

ZIPCODE	Down more than 10%	Down 5-10%	Down less than 5%	More or less the same	Up less than 5%	Up 5-10%	Up more than 10%	No Response
19102	3	1	3	2	1	0	0	-
19103	14	5	1	1	0	1	0	-
19104	15	7	2	0	3	0	0	-
19106	8	0	0	0	1	0	0	-
19107	12	9	8	2	5	1	0	-
19111	1	0	0	1	0	0	0	-
19114	4	1	0	0	0	0	0	-
19115	10	5	0	0	0	0	0	-
19116	3	1	0	1	0	0	0	-
19118	1	3	2	0	0	0	0	-
19119	1	1	1	0	0	1	0	-
19120	22	2	1	0	1	0	0	-
19121	3	0	0	1	0	0	0	-
19122	0	1	0	1	0	0	0	-
19123	12	6	2	0	0	1	1	-
19124	32	14	0	0	1	0	2	-
19125	8	3	3	2	0	0	3	-
19126	1	1	0	0	0	0	0	-
19127	2	3	0	0	0	0	1	-
19128	13	4	1	0	1	0	0	-
19129	0	3	0	0	0	0	1	-
19130	8	2	8	0	2	1	0	-
19131	7	2	1	0	0	0	0	-
19132	13	7	0	0	1	0	0	-
19133	18	4	3	0	0	0	0	-
19134	9	1	0	0	0	0	0	-
19135	14	4	3	0	1	0	0	-
19136	9	2	0	1	0	1	0	-
19137	2	0	0	0	0	0	0	-
19138	7	3	0	0	0	0	0	-
19139	17	13	1	0	1	0	1	-
19140	29	7	2	0	0	0	0	-
19141	18	4	2	0	0	0	0	-
19142	10	7	0	0	0	0	1	-
19143	6	5	0	0	1	0	1	-
19144	6	1	0	0	0	0	0	-
19145	11	5	1	1	1	0	0	-
19146	12	3	0	1	0	0	0	-
19147	7	3	4	3	0	1	0	-
19148	18	4	1	3	1	0	0	-
19149	8	9	1	0	1	0	0	-
19150	5	3	1	0	0	0	0	-
19151	21	7	1	0	0	0	0	-
19152	5	2	0	0	1	0	0	-
19154	2	1	0	0	0	0	0	-
<b>TOTAL</b>	<b>427</b>	<b>169</b>	<b>53</b>	<b>20</b>	<b>23</b>	<b>7</b>	<b>11</b>	<b>31</b>

## Appendix C: Sample Comments from Businesses

### Grocery

19140

“Business very slim, damage to the business. Loss 70% of the business. Price for beverages 60c before, now have to charge 90c. At the present time ordering 4 or 5 cases a week; before ordered 10 to 15 cases, customers not paying the higher price for the beverages. Want to have more employees working cut down to 2 employees”

19135

“Beverage sales are down a lot, ordering less because it's too high to get. Lost a lot of customers due to the Beverage Tax. Struggling, ready to close but have to make a living”

19152

“We have found consumers leave the area to shop in local suburbs so they can avoid the sugar tax. This has impacted sales of fresh meats, groceries, sandwiches and luncheon meats.”

19121

“People are use to the tax now, sales are the same. “

### Corner Stores

19124

“Beverage taxes are affecting me because I have to invest more. There is hardly any liquid access. Customers are complaining and arguing with my employees which has cost me to call the police for assistance. “

19151

“Soda truck use to come once a week, now they come once a month.”

19131

“Down 80% loss in beverage sales. People are going outside of the city. We are right near City Line. There is no tax across the street.”

19123

“People are buying more water.”

### Restaurants

19130

“I love taxes being used for education. That is important to us.”

19130

“We slightly increased our prices on beverages, but not enough to absorb the beverage tax. The costs are too high.”

19147

“I no longer order soda or juices that most the tax criteria, not only does this limit customer options I’m sure it has negatively affected the manufacture of these products. Also, you already tax me 10% on all sales. Now we are getting double and triple taxed. Please make beverage tax go away. “

19107

“The tax has caused inconvenience, add accounting cash, affected sales, just the idea of government trying to force ideas and attitude on how/when/where we eat and drink. Gov. shouldn't be involved in personal choice and they pass it as children benefit but already parts of the money hasn't been for children.”

19102

“No change. People order what they want. They accept the tax.”

#### Retail

19147

“Each month I pay hundreds of dollars in Beverage Tax to the City but my son does not qualify to go 'FREE Pre-K'. So in addition to the 'Tax' I have to pay \$1700/mth for Pre-K. That is why I've Sold my Home in the City and will be moving to Media. \$8500/yr Real Estate tax + Beverage Tax on every soda order and my family can't go to 'Free Pre-K'. “

19151

“After 33 years business is up for sale. Fees on businesses in Philadelphia are out of control. People are going right across the border. “

19135

“Other ways to collect money for schools. This is hurting our business and other corporations.”