

Pennsylvania Intergovernmental Cooperation Authority

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Monthly City of Philadelphia Tax Revenue Update

November 2011

City General Fund tax collections in November were \$138.4 million, bringing the total for the first five months of FY12 to \$736.6 million, an increase of 0.2 percent compared to the same period in FY11. October and November collections indicate improved second quarter growth rates for the wage and earnings and sales taxes, which showed weak growth or decline in the first quarter of FY12. It should be noted, however, that collections for a single month can be a misleading indicator due to monthly variability in collections.

For all three major taxes that are collected on a continuous basis throughout the year – the wage and earnings, sales, and real estate transfer taxes – trends for overall collections through November are below estimated FY12 annual growth rates in the approved FY12-FY16 Five-Year Financial Plan and the most recent *Quarterly City Managers Report*. To meet the current estimates for these taxes will require that wage, retail sales, and housing transactions continue at a relatively strong pace for the remainder of FY12.

- Wage and earnings tax revenue (including both the City and PICA portions of the tax) was \$126.2 million in November, bringing the total for the first five months of FY12 to \$623.6 million, an increase of 1.8 percent compared to the same period in FY11. The wage and earnings tax base grew at 0.7 percent in the first quarter of FY12, substantially below the levels of FY11, when quarterly growth rates ranged from 2.0 to 4.1 percent. Due to relatively weak first quarter collections, the City in the most recent *Quarterly City Managers Report* reduced the FY12 tax base growth estimate from 3.4 percent to 2.4 percent, resulting in a \$21.8 million decline in estimated FY12 revenues. Collections in the first two months of the second quarter (October and November) are 3.4 percent higher than last year, suggesting improved growth in the second quarter. To meet the reduced FY12 estimate, however, will still require continued strong growth through the remainder of the fiscal year. The current estimate for FY12 is \$1,520.5 million.

- November sales tax collections were \$21.5 million, bringing the total for the first five months of FY12 to \$102.5 million, a 3.6 percent decline from the previous fiscal year.¹ The sales tax base declined an estimated 6.0 percent in the first quarter of FY12 as compared to the first quarter of FY11. Combined October and November 2011 collections are 0.4 percent higher than last year, indicating improved retail sales trends in the second quarter. As a result of weak first quarter collections, the City in the *Quarterly City Managers Report* for the first quarter revised the FY12 tax base growth estimate downward from 3.5 to 1.6 percent, resulting in a current FY12 estimate of \$248.6 million, a \$7.9 million reduction from the FY12-FY16 Plan estimate. However, to meet even this estimate, retail sales trends will have to continue to improve during the remainder of the fiscal year.
- Real estate transfer tax (RETT) collections were \$7.5 million in November, bringing the total for the first five months of FY12 to \$52.8 million, a 7.6 percent decline compared to FY11. The \$4.3 million decline in RETT collections to date primarily reflects weak collections in July, which were \$9.7 million below the prior year due to the impact of the federal first time homebuyer tax credit in 2010. The current estimate for FY12 assumes stabilization of the real estate market through the remainder of the fiscal year. However, for the first time since July, monthly collections in November were below the prior year level (by \$1.8 million), a source of some concern. The current projection for FY12 is \$120.9 million, based on estimated annual tax base growth of 3.6 percent.
- Parking tax collections in November were \$6.0 million, bringing the total for the first five months of FY12 to \$30.6 million, a 1.3 percent increase compared to FY11. The current estimate for FY12 is \$74.3 million, an increase of 3.8 percent from the FY11 unaudited actual.
- Amusement tax collections in November were \$1.2 million, bringing the total for the first five months of FY12 to \$7.0 million, a 16.2 percent decline compared to FY11. The current FY12 estimate is \$19.6 million, a decline of 5.5 percent from the FY11 unaudited actual, and represents a \$2 million reduction from the FY12-FY16 Plan estimate.

¹ Year-over-year collections differ from end-of-year budget numbers due to the delays in the collection of the Sales Tax and end-of-year accrual adjustments. The figures here provide for the best activity comparison, which can be adjusted for the rate change, and allow the calculation of a growth rate in the underlying base.

City of Philadelphia Tax Revenues through November 2011 (\$ in Millions)

Tax	Monthly Total through November			Fiscal Year Total (Budget Basis)	
	FY11	FY12 (Preliminary)	Percent Change	FY11 Unaudited Actual	FY12 Current Estimate
Wage and Earnings¹	\$612.6	\$623.6	1.8%	\$1,481.6	\$1,520.5
<i>Wage</i>	608.1	618.8	1.8%	--	--
<i>Earnings</i>	4.6	4.9	6.9%	--	--
Net Profits¹	4.3	3.0	-31.2%	20.3	20.8
Real Estate²	24.3	31.3	28.9%	482.7	486.7
Business Privilege	34.5	25.6	-25.9%	376.9	369.3
Sales	106.3	102.5	-3.6%	244.6	248.6
Real Estate Transfer	57.2	52.8	-7.6%	116.6	120.9
Parking	30.2	30.6	1.3%	71.6	74.3
Amusement	8.4	7.0	-16.2%	20.8	19.6
Other	1.5	1.0	-35.2%	2.7	4.1
Total	879.3	877.4	-0.2%	2,817.8	2,864.8
<i>PICA Taxes</i>	144.3	140.8	-2.4%	358.7	357.1
<i>City General Fund Taxes</i>	735.0	736.6	0.2%	2,459.1	2,507.8

Source: Monthly collections from *Comparative Statement of Net Revenue Collections*, City Department of Revenue, available at http://www.phila.gov/revenue/City_Monthly_Revenue.html, and preliminary revenue report for November 2011. FY11 unaudited actual and FY12 current estimate from *Quarterly City Managers Report* for the period ending September 30, 2011.

Notes:

¹ Includes portion dedicated to PICA.

² The rate of the City portion of the real estate tax increased from 3.305 percent in 2010 to 4.123 percent in 2011. The combined City and School District real estate tax rate increased from 8.264 percent to 9.082 percent.