

City of Philadelphia Tax Revenue Update for September 2014

September General Fund tax collections totaled \$161.5 million, a decline of 0.3 percent from September 2013, reflecting the allocation of local sales tax revenue to the School District of Philadelphia

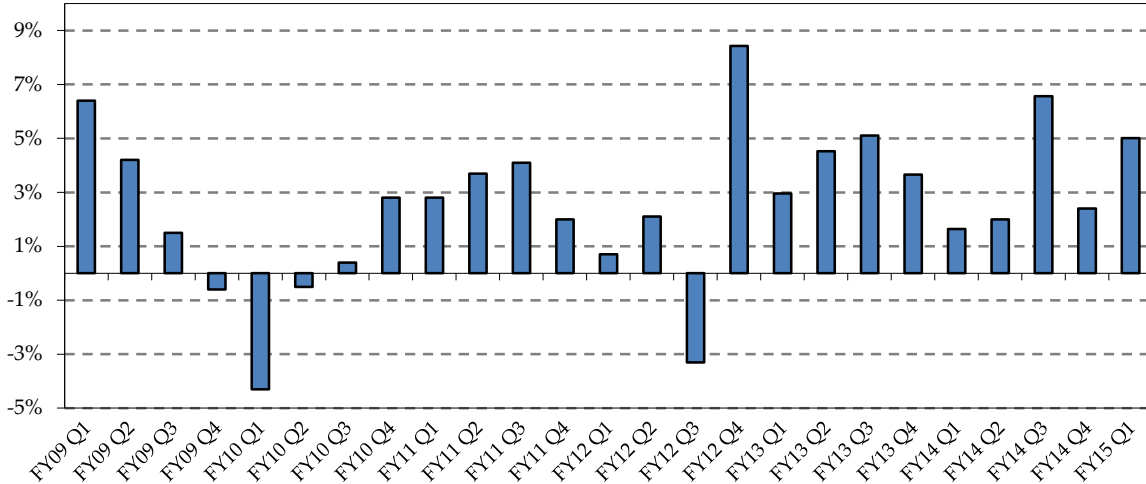
General Fund tax collections totaled \$161.5 million in September, according to the City's preliminary revenue report, a decrease of \$0.5 million (0.3 percent) from September 2013. Increases in real estate transfer (\$7.3 million), wage and earnings (\$1.5 million), real estate (\$0.7 million), amusement (\$0.9 million), parking (\$0.5 million) and net profits (\$0.3 million) tax receipts were offset by declines in sales (\$10.6 million) and business income and receipts (\$1.1 million) taxes. The decline in sales tax reflected the allocation of a portion of the local sales tax to the School District of Philadelphia (SDP) effective July 1, 2014. (Because there is generally a two month lag between the time of sales transactions and receipt of revenue by the City, the change in the allocation of the tax did not begin to impact City receipts until September.)

The current estimate for FY15 General Fund tax collections is \$2,767.4 million, a decline of \$28.5 million (1.0 percent) from FY14 unaudited actual revenue. The decline reflects a projected \$110.3 million (41.9 percent) reduction in sales tax revenue due to the dedication of \$120 million in revenue from the local sales tax to SDP. This impact of the shift is partially offset by projected tax base growth of 3.7 percent in FY15. Another factor contributing to the projected decline in overall General Fund tax revenue in FY15 is a projected \$8.5 million decline in business income and receipts tax (BIRT) receipts. This reduction reflects a projected reduction of \$21 million due to tax reform, including exemption of the first \$100,000 in receipts from the BIRT gross receipts tax and single sales factor apportionment for the BIRT net income tax. The revenue loss due to these reforms is projected to be partially offset by tax base growth of 3.0 percent in FY15.

Figures 1 through 3 present estimated quarterly changes since FY09 in the wage and earnings, sales, and real estate transfer tax bases. In each figure, the tax base is estimated by dividing revenue by the tax rate in effect in each period. The tax base represents the underlying economic activity that is subject to taxation and is particularly important as an indicator of the City's economic and fiscal health.

As shown in Figure 1, the wage and earnings tax base increased by an estimated 5.0 percent in the first quarter of FY15. Quarterly growth rates have generally been positive since the fourth quarter of FY10. Over the past four years, annual growth rates have ranged from 1.8 to 4.0 percent.

**Figure 1: Wage and Earnings Tax Base,
Year-over-Year Percentage Change by Quarter¹**

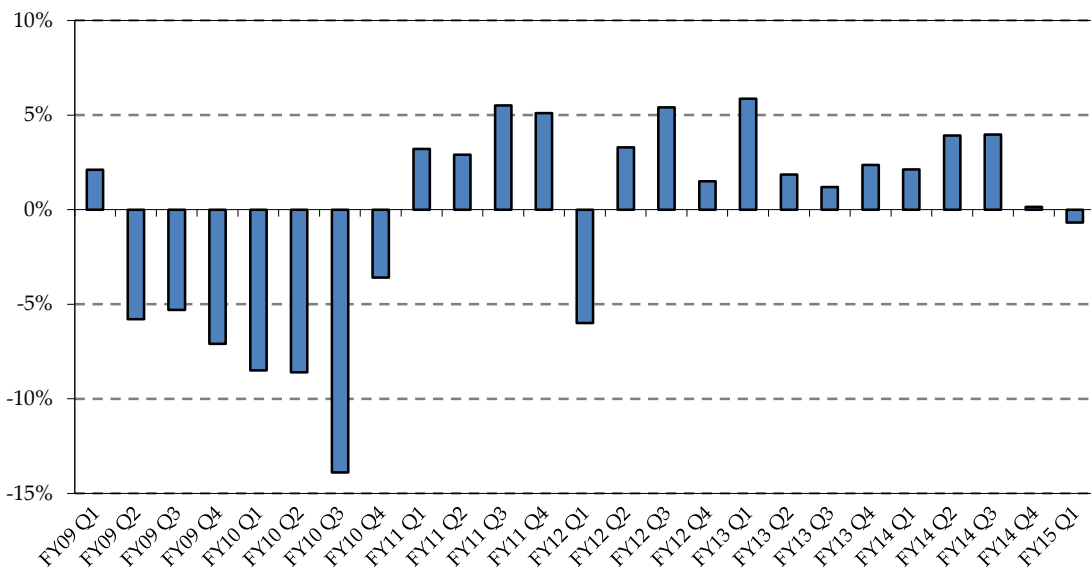


Source: PICA staff estimates. The estimated tax base equals revenues divided by the tax rate in effect in each period. Revenue data are from *Comparative Statement of Net Revenue Collections*, City of Philadelphia Department of Revenue.

¹ Includes City and PICA portion.

Quarterly growth trends for the sales tax base are shown in Figure 2. The sales tax base declined 0.7 percent in the first quarter of FY15, the first decline since the first quarter of FY12. On an annual basis, the sales tax base declined 4.0 percent and 8.7 percent, respectively, in FY09 and FY10, before increasing at rates ranging from 0.9 to 4.2 percent annually from FY11 through FY14. Despite the gradual recovery in retail sales, the estimated sales tax base was \$13.2 billion in FY14, below the FY08 level of \$13.6 billion. In contrast, the FY14 wage and earnings tax base in FY14 is estimated at \$43.6 billion, a 15.4 percent increase from the FY08 level of \$37.8 billion.

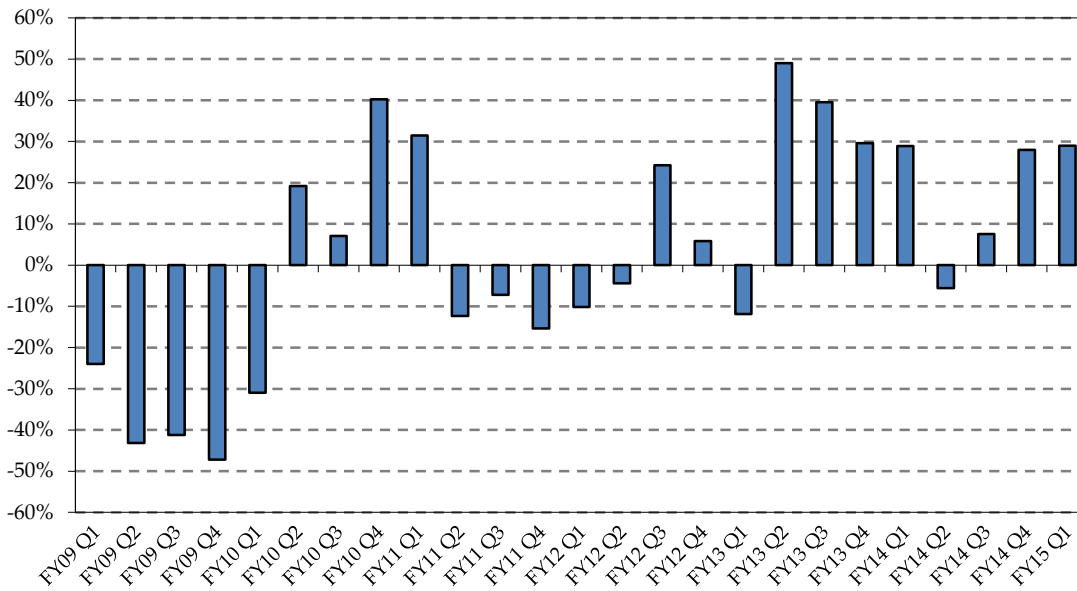
**Figure 2: Sales Tax Base:
Year-over-Year Percentage Change by Quarter**



Source: PICA staff estimates. The estimated tax base equals revenues divided by the tax rate in effect in each period. Revenue data are from *Comparative Statement of Net Revenue Collections*, City of Philadelphia Department of Revenue.

As shown in Figure 3, the real estate transfer tax base increased an estimated 29.0 percent in the first quarter of FY15. This tax base has exhibited strong growth over the past two years, increasing an estimated 23.5 percent in FY13 and 14.3 percent in FY14. The transfer tax base declined 50.6 percent from FY06 to FY09, and then increased 45.0 percent from FY09 to FY14, reflecting trends in residential and commercial real estate values and the level of real estate activity.

**Figure 3: Real Estate Transfer Tax Base:
Year-over-Year Percentage Change by Quarter**



Source: PICA staff estimates. The estimated tax base equals revenues divided by the tax rate in effect in each period. Revenue data are from *Comparative Statement of Net Revenue Collections*, City of Philadelphia Department of Revenue.

**Table 1: City of Philadelphia General Fund Tax Revenues:
FY15 versus FY14 (\$ in Millions)**

Tax	Monthly Total through September			Fiscal Year Total (Budget Basis)			Change To Date Above/ (Below) Estimated Fiscal Year Change
	FY14	FY15 ¹	Percent Change	FY14 Unaudited Actual	FY15 Current Estimate	Percent Change	
Wage and Earnings²	\$381.7	\$400.4	4.9%	\$1,634.7	\$1,695.5	3.7%	1.2%
<i>Wage</i>	379.6	398.6	5.0%				
<i>Earnings</i>	2.1	1.8	-11.7%				
Net Profits²	2.0	0.5	-76.2%	27.6	31.9	15.6%	(91.7%)
Real Estate	22.7	23.9	5.3%	526.4	547.4	4.0%	1.3%
Business Income and Receipts	29.4	23.6	-19.6%	461.7	453.2	-1.8%	(17.7%)
Sales	66.6	55.4	-16.9%	263.1	152.7	-41.9%	25.0%
Real Estate Transfer	40.9	52.7	29.0%	168.1	184.3	9.7%	19.3%
Parking	18.5	19.2	4.1%	75.2	76.9	2.3%	1.8%
Amusement	6.6	6.9	4.4%	20.0	20.4	2.0%	2.4%
Other	0.7	0.7	6.0%	3.7	3.5	-6.5%	12.5%
Total	569.0	583.3	2.5%	3,180.4	3,165.7	-0.5%	3.0%
<i>PICA</i>	87.1	90.0	3.3%	384.5	398.3	3.6%	(0.3%)
<i>City</i>	481.9	493.3	2.4%	2,795.9	2,767.4	-1.0%	3.4%

Source: Monthly collections from *Comparative Statement of Net Revenue Collections*, City of Philadelphia, Department of Revenue. FY14 unaudited actual and FY15 current estimate from *Quarterly City Managers Report* for the period ending September 30, 2014.

Notes:

¹ Amounts are preliminary. Collections to date are not necessarily indicative of likely trends for the entire fiscal year.

² Includes portion dedicated to PICA.

Table 2: City of Philadelphia Tax Revenues FY15 Adopted Budget versus Current Estimate (\$ in Millions)				
Tax	Adopted Budget	Current Estimate	Current Estimate Above/(Below) Adopted Budget	
			Amount	Percent
Wage and Earnings¹	\$1,683.7	\$1,695.5	\$11.8	0.7%
Net Profits¹	35.2	31.9	(3.3)	-9.4%
Real Estate	547.4	547.4	--	--
Business Income and Receipts	453.2	453.2	--	--
Sales	154.6	152.7	(1.9)	-1.2%
Real Estate Transfer	176.6	184.3	7.7	4.4%
Parking	76.9	76.9	--	--
Amusement	20.9	20.4	(0.5)	-2.4%
Other	3.5	3.5	--	--
Total	3,152.0	3,165.7	13.8	0.4%
<i>PICA</i>	403.7	398.3	(5.4)	-1.3%
<i>City</i>	2,748.2	2,767.4	19.2	0.7%

Source: Adopted budget amounts from *Mayor's Operating Budget in Brief for Fiscal Year 2015*.
Current estimate from *Quarterly City Managers Report* for the period ending September 30, 2014.

Note:

¹ Includes portion dedicated to PICA.