

Pennsylvania Intergovernmental Cooperation Authority

1500 Walnut Street, Suite 1600
Philadelphia, PA 19102
215-561-9160

Monthly City of Philadelphia Tax Revenue Update

March 2010

City General Fund tax collections in March were \$238.2 million, an increase of 4.8 percent compared to the March 2009 level. Collections for the first nine months of FY10 were \$1,575.5 million, 0.4 percent below revenues received during the same period in FY09. The increase in overall March tax revenues compared to March 2009 reflected increases in revenues from all major taxes except the Real Estate Tax. The Wage Tax increase was a particularly positive sign since it indicates a continued trend toward recovery in Philadelphia resident and non-resident earnings. However, the increase in Sales Tax revenue from March 2009 to March 2010 was primarily the result of the increased tax rate that was implemented in October 2009. The Sales Tax base declined at an estimated annual rate of 13.9 percent in the third quarter of FY10, the largest decline of the recession. Recovery in the pace of consumer spending will determine whether the City will meet its projections of Sales Tax revenue in FY10.

**Major General Fund Tax Revenue Sources:
Year-over-Year Percentage Growth by Quarter¹**

| Tax | FY09 | | | | FY10 | | |
|--|--------|--------|--------|--------|--------|--------|--------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| Wage, Earnings, and Net Profits ² | 5.5 | 2.5 | (0.8) | (2.2) | (4.6) | (1.1) | 2.0 |
| Real Estate Transfer | (24.0) | (43.1) | (41.2) | (47.2) | (31.0) | 19.2 | 7.1 |
| Sales ² | 2.1 | (5.8) | (5.3) | (7.1) | (8.5) | (8.6) | (13.9) |
| Parking ² | (5.4) | (4.3) | 5.4 | (23.5) | 9.4 | 6.6 | (6.3) |
| Amusement | (3.7) | 54.6 | 20.4 | 17.5 | 6.6 | (14.5) | (0.9) |

¹ Negative amounts are shown in parentheses. Business Privilege Tax and Real Estate Tax quarterly trends are not shown since these taxes are collected primarily in the spring, and quarterly patterns are less meaningful for these taxes than for the other major General Fund taxes.

² Growth rates adjusted for tax rate changes.

- Collections of the City portion of the Wage, Earnings, and Net Profits taxes were \$99.9 million in March, an increase of 10.3 percent from the March 2009 collection level. Collections for the third quarter of FY10, after adjusting for tax rate changes, increased 2.0 percent compared to the third quarter of FY09. This quarterly result continues the trend toward recovery in the Wage Tax base. After declining 4.6 percent in the first quarter of FY10 compared to the prior year, the Wage Tax base declined at a comparatively modest rate of 1.1 percent in the second quarter and increased by 2.0 percent in the third quarter. Wage Tax collections for the first nine months of FY10 are \$849.3 million, a decrease of 2.0 percent over the same period in FY09. The Proposed FY11-FY15 Five-Year Plan (“FY11-FY15 Plan”) projects Wage Tax collections of \$1,131.4 million in FY10, an increase of 0.2 percent over FY09. This projection assumes continued recovery in the Wage Tax base in the fourth quarter of FY10.
- Real Estate Transfer Tax (RETT) collections were \$8.8 million in March, a 20.1 percent increase over the same month last year. This was the fifth consecutive month in which RETT revenues exceeded the prior year’s level for the same month. Collections for the third quarter of FY10 increased 7.1 percent over the prior year. While this result is weaker than the 19.2 percent increase in the second quarter, that fact that quarterly revenues are increasing, after more than two years of decline, is a positive sign. Total collections for the first nine months of FY10 were \$84.1 million, a decline of 7.9 percent over the same period in FY09. The FY11-FY15 Plan projects FY10 RETT revenue at \$118.7 million, an increase of 3.1 percent over the FY09 actual. This projection anticipates continued real estate market stabilization in the fourth quarter of FY10.
- Sales Tax collections in March were \$16.6 million. Collections through the first nine months of FY10 are \$124.5 million, a 25.2 percent increase over the same period in FY09. Estimated quarterly Sales Tax base growth, which adjusts for the October 2009 tax rate change, however, indicates continued deterioration in the Sales Tax base. The tax base declined approximately 13.9 percent in the third quarter of FY10, the largest quarterly decline of the current recession. While recent national data indicate a stronger retail sales trend, this recovery has yet to appear in City Sales Tax revenues, in part because of the two month lag between the time when sales occur and the receipt of Sales Tax revenues by the City. The FY11-FY15 Plan estimate for Sales Tax revenue for FY10 is \$199.8 million. The continuing decline in the tax base through March raises a concern about the City’s ability to meet this projection.

- Real Estate Tax (RET) collections in March were \$71.6 million, bringing the total through the first nine months of the fiscal year to \$374.5 million, a 1.1 percent increase compared to the same period in FY09. The FY11-FY15 Plan projects \$413.4 million in RET revenue in FY10, an increase of 3.3 percent over the FY09 actual. Collections to date appear on track to meet the FY10 projection. Delinquent RET collections received under the City's tax amnesty program, which will be in effect from May 3 to June 25, will be an important determinant of FY10 collections.
- Business Privilege Tax (BPT) revenues were \$34.9 million in March. The FY10 total through March is \$75.8 million, a decline of 14.0 percent compared to the same period in FY09. However, because most BPT revenue is collected in April and May, collections to date are not indicative of likely results for the full fiscal year. The FY11-FY15 Plan estimates FY10 BPT revenue at \$376.6 million, a decline of 2.4 percent from FY09.
- Parking Tax collections in March were \$5.6 million, bringing the total for the first nine months of FY10 to \$51.1 million, an increase of 3.2 percent over the same period in FY09. The FY11-FY15 Plan projects FY10 Parking Tax revenue of \$70.7 million, an increase of 0.5 percent from FY09 actual collections.
- March Amusement Tax collections were \$0.6 million. FY10 collections through March are \$13.6 million, a decrease of 4.3 percent compared to collections in the first nine months of FY09. The FY11-FY15 Plan projects FY10 Amusement Tax collections of \$20.9 million, a decrease of 2.3 percent from the FY09 actual amount.

Fiscal Year 2010 General Fund Tax Collections through March 2010

Dollars in Millions

| Tax | FY10 through March (Preliminary) | FY09 through March | Percent Change through March | FY09 Actual | Current Estimate FY10 ¹ | FY10-FY14 Five Year Plan Projection for FY10 ² |
|--|----------------------------------|--------------------|------------------------------|-------------|------------------------------------|---|
| Wage, Earnings, and Net Profits ^{3,4} | \$849.3 | \$866.4 | -2.0% | \$1,129.2 | \$1,131.4 | \$1,172.4 |
| Real Estate | 374.5 | 370.6 | 1.1% | 400.1 | 413.4 | 412.7 |
| Business Privilege | 75.8 | 88.2 | -14.0% | 386.0 | 376.6 | 356.7 |
| Sales ⁵ | 124.5 | 99.4 | 25.2% | 128.2 | 199.8 | 215.3 |
| Real Estate Transfer | 84.1 | 91.3 | -7.9% | 115.1 | 118.7 | 94.7 |
| Parking | 51.1 | 49.5 | 3.2% | 70.4 | 70.7 | 70.7 |
| Amusement | 13.6 | 14.2 | -4.3% | 21.4 | 20.9 | 20.9 |
| Other ⁴ | 2.5 | 2.8 | -9.9% | 2.4 | 3.1 | 3.0 |
| Total Taxes ⁶ | 1,575.5 | 1,582.5 | -0.4% | 2,252.8 | 2,334.6 | 2,346.5 |

Notes:

¹ From the Proposed FY11-FY15 Five-Year Financial Plan presented to City Council on March 4, 2010.

² From the Revised FY10-FY14 Five-Year Financial Plan approved by PICA on September 11, 2009.

³ Excludes the portion of these taxes dedicated to PICA. Figures are not adjusted to reflect the decrease in Wage Tax rate from 3.98% for residents and 3.5392% for non-residents in July 2008, to 3.9296% for residents and 3.4997% for non-residents in July 2009. These reductions are made possible by State gaming revenues of \$86.3 million in FY10.

⁴ Figures are adjusted to exclude from "other" revenues \$3.8 million in Wage Tax revenues which were classified as miscellaneous tax revenue in the City's preliminary March revenues report. Of this amount, \$2.7 million represents the City portion of the Wage Tax, and this amount is included in the Wage, Earnings and Net Profits tax revenue reported here.

⁵ The Five-Year Plan Sales Tax projection for FY10 assumed an increase in the City Sales Tax rate from 1% to 2% effective October 1, 2009. The rate increase actually became effective on October 8.

⁶ The total taxes growth projection includes the increase in Sales Tax revenue due to the rate increase. Total tax revenue, excluding the Sales Tax, is projected to increase by only 0.5 percent from FY09 to FY10 in the proposed FY11-FY15 Five-Year Plan.