

Pennsylvania Intergovernmental Cooperation Authority

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Monthly City of Philadelphia Tax Revenue Update

June 2010

City General Fund tax collections in June were \$150.2 million, including \$16.5 million in revenue from the Tax Amnesty program. Excluding the impact of the Amnesty, total FY10 collections through June for the three largest City tax revenue sources – the Wage Tax, Real Estate Tax, and Business Privilege Tax – are below their FY09 level. Wage Tax revenues were down by 1.3 percent from FY09, a reflection of the weak labor market, while Real Estate Tax revenues were down by 1.2 percent, primarily reflecting reduced collections of delinquent taxes prior to the Amnesty program. The Business Privilege Tax was down by 8.8 percent compared to FY09, indicating declines in business income and gross receipts in 2009. Including tax amnesty collections, total City General Fund tax revenue through June was \$2,291.5 million, an increase of 1.1 percent from FY09. The overall General Fund tax revenue increase was due to the higher Sales Tax rate and revenue from the Amnesty program.

Analysis of quarterly tax base trends through the fourth quarter of FY10, shown in the table below, indicate a slowly recovering Wage Tax base, a less rapid decline in the Sales Tax base, continued strength in the Real Estate Transfer Tax base, and small gains in the Parking and Amusement Tax bases. Overall, these trends, which adjust for the impact of tax rate changes and the Tax Amnesty program, indicate a Philadelphia economy that is gradually stabilizing.

**Major General Fund Tax Revenue Sources:
Year-over-Year Percentage Growth in Tax Base by Quarter**

Tax	FY09				FY10			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Wage, Earnings, and Net Profits	5.5	2.5	(0.8)	(2.2)	(4.6)	(1.1)	1.0	2.0
Real Estate Transfer	(24.0)	(43.1)	(41.2)	(47.2)	(31.0)	19.2	7.1	40.0
Sales	2.1	(5.8)	(5.3)	(7.1)	(8.5)	(8.6)	(13.9)	(3.6)
Parking	(5.4)	(4.3)	5.4	(23.5)	9.4	6.6	(6.3)	5.1
Amusement	(3.7)	54.6	20.4	17.5	6.6	(14.5)	(0.9)	3.7

Note: Negative amounts are shown in parentheses. Growth rates adjusted for tax rate changes and the impact of the FY10 Tax Amnesty program. 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.

- Collections of the City portion of the Wage, Earnings, and Net Profits taxes were \$81.7 million in June, exclusive of Tax Amnesty program revenues, bringing the total monthly collections for FY10 to \$1,127.6 million, a decline of 1.3 percent compared to FY09. The current estimate for FY10 Wage Tax collections, as presented in the City's FY11-15 Five-Year Financial Plan, is \$1,136.2 million. This estimate is somewhat higher than the monthly total collections through June, reflecting anticipated end-of-year accounting adjustments, including accruals of payments for tax periods ending during FY10 but received after June 30. After adjusting for changes in tax rates, and excluding Tax Amnesty revenues, the June collections indicate a movement toward recovery in the Wage Tax base. Compared to the same period in the prior year, the Wage Tax base grew approximately 2.0 percent in the fourth quarter of FY10, the second consecutive quarter of growth.
- Real Estate Tax (RET) collections in June, excluding proceeds from the Tax Amnesty program, were \$7.0 million, bringing the total monthly collections for FY10 to \$398.7 million, a 1.2 percent decline compared to FY09. Because of the City's accounting policies, which require a 60 day accrual of Real Estate Tax collections, actual revenues for FY10 will be based on monthly collections from September 2009 through August 2010. The current FY10 estimate from the proposed FY11-15 Plan, exclusive of Tax Amnesty revenue, is \$398.9 million. To meet this estimate will require non-Amnesty RET collections in July and August to average approximately \$6 million per month, a level consistent with last year.
- Excluding amnesty collections, Business Privilege Tax (BPT) monthly collections through June were \$350.1 million in FY10, an 8.8 percent reduction from the FY09 level. The current estimate for FY10, contained in the proposed FY11-15 Five-Year Plan, is \$358.2 million, which is \$18.4 million below the estimate in the *Quarterly City Managers Report* for the third quarter of FY10. Approximately \$11 million of this reduction is due to the separation of Amnesty program revenue from the BPT estimate in the FY11-15 Plan revenue estimates, while the remaining reduction reflects unanticipated weakness in collections. The significant decline in FY10 revenue compared to FY09 reflects the overall slowdown in business activity in the city since the beginning of 2009.
- Sales Tax collections in June were \$19.3 million. Monthly collections through June were \$184.2 million in FY10, a 41.3 percent increase over FY09. This increase reflects the impact of the tax rate increase from 1 to 2 percent effective October 8, 2009, offset by a declining tax base. Compared to the prior year, the tax base declined 8 percent or more during each of the first three quarters of FY10, before declining at a more modest pace of 3.6 percent in the fourth quarter. The slower rate of decline in the tax base in the fourth quarter is a positive sign, though it may be a more permanent reduction resulting from the impact of

the tax rate increase on the tax base. Because of the City's accounting policies, collections for the period September through August are included in the reported budget-basis actual revenue for each fiscal year. Accordingly, the City will need to receive approximately \$21 million in revenue per month during July and August to meet the current FY10 estimate. This assumes a continuation of the trend toward stabilization in the Sales Tax base that has been observed in recent months.

- Real Estate Transfer Tax (RETT) collections were \$12.9 million in June. Total monthly collections for FY10 were \$118.3 million, an increase of 2.2 percent from FY09. RETT collections increased over the same month in FY09 in the last eight months of FY10, indicating a stabilizing real estate market in the city. The expiration of the federal first-time homebuyer tax credit on April 30 does not appear to have negatively affected RETT collections through June. However, the impact of the expiration of the credit may be delayed due to the lag between the time of transactions and RETT revenue receipt by the City which occurs after real estate transfer closings. Recent changes at the Federal level allow transactions under contract by April 30th to close until September 30th and still obtain the tax credit. The current estimate for FY10 of \$114.7 million, contained in the FY11-15 Plan, assumes some reduction in real estate activity in July and August.
- Parking Tax collections in June were \$5.9 million, bringing the monthly total for FY10 to \$69.4 million, an increase of 3.7 percent over FY09. The current estimate in the FY11-15 Plan is \$70.7 million.
- June Amusement Tax collections were \$1.0 million. FY10 collections through June are \$21.3 million, a 1.5 percent decrease compared to collections in FY09. The current estimate in the FY11-15 Plan is \$20.9 million.
- The proposed FY11-FY15 Plan estimates that the City General Fund will receive \$27 million in revenue from the Tax Amnesty program in FY10. This is consistent with Revenue Department data that show that through the end of June the department processed approximately \$18 million in City revenue from the amnesty program, with additional revenues still being processed. Of this \$18 million, approximately \$4.5 million represents City Wage, Earnings, and Net Profits Tax revenue, \$4.9 million represents the City portion of the Real Estate Tax, \$8.8 million represents BPT revenue, and \$0.1 million represents other City taxes. The remaining Amnesty program collections should be processed by the end of July and recognized as FY10 revenue.

General Fund Tax Collections through June 2010

Dollars in Millions

Tax	Monthly Collections Through June			Fiscal Year Total Revenues (Budget Basis)	
	FY10 (Preliminary)	FY09 ¹	Percent Change	FY09 Actual ¹	FY10 Current Estimate
Wage, Earnings, and Net Profits ²	\$1,127.6	\$1,142.0	-1.3%	\$1,129.2	\$1,136.2
Real Estate	398.7	403.4	-1.2%	400.1	398.9
Business Privilege	350.1	383.7	-8.8%	386.0	358.2
Sales ³	184.2	130.4	41.3%	128.2	205.3
Real Estate Transfer	118.3	115.7	2.2%	115.1	114.7
Parking	69.4	66.9	3.7%	70.4	70.7
Amusement	21.3	21.6	-1.5%	21.4	20.9
Other	3.6	2.9	23.9%	2.4	3.1
Tax Amnesty Program	18.4	0.0	NA	0.0	27.0
Total Taxes	2,291.5	2,266.6	1.1%	2,252.8	2,335.1

Sources:

Monthly collections data are based on the *Comparative Statement of Net Revenue Collections*, City Department of Revenue, available at http://www.phila.gov/revenue/City_Monthly_Revenue.html, and a preliminary revenue report for June 2010. Fiscal Year total revenues for FY09 are reported in the *Supplemental Report of Revenues and Obligations*, Office of the Director of Finance. Fiscal Year total revenues for FY10 are estimates contained in the FY11-FY15 *Five-Year Financial Plan* submitted to PICA on July 14, 2010.

Notes:

¹ FY09 monthly collections through June do not equal the FY09 fiscal year total because monthly collections data do not reflect all accounting adjustments that are reflected in the final fiscal year total amounts.

² 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.

³ 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.