



January 30, 2015

City of Philadelphia Tax Revenue Update for December 2014

Wage and earnings and real estate transfer taxes continued to exceed projections through December 2014.

General Fund tax collections totaled \$165.5 million in December, according to the City's preliminary revenue report, an increase of \$7.4 million (4.7 percent) from the previous year. Increases in wage and earnings (\$9.6 million), real estate transfer (\$11 million), net profits (\$0.5 million), and parking (\$0.4 million) tax receipts were offset by declines in sales (\$10.5 million), business income and receipts (\$3.2 million), real estate (\$0.8 million), and amusement (\$0.1 million) taxes. The decline in sales tax reflected the allocation of a portion of the tax to the School District of Philadelphia (SDP) effective July 1, 2014.

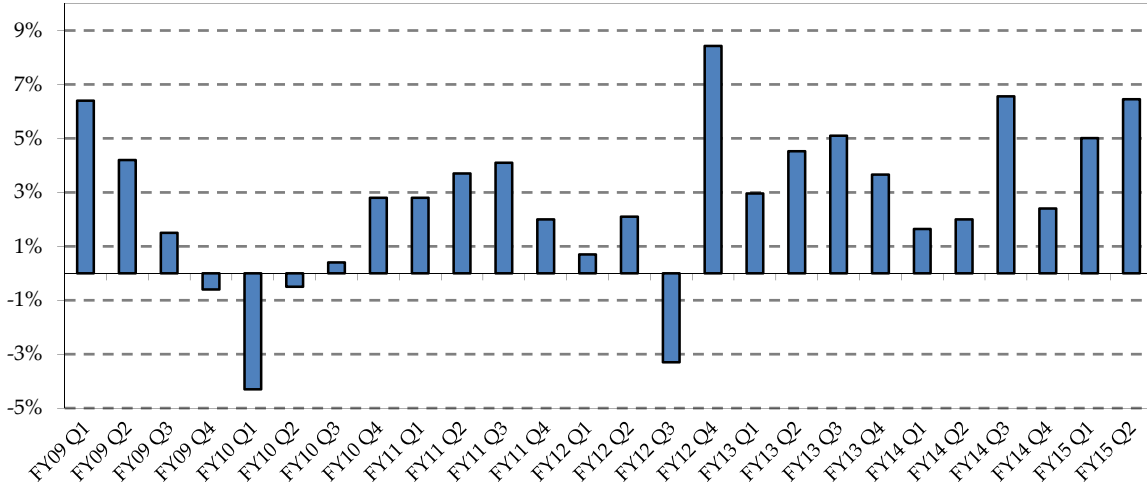
Fiscal Year 2015 year-to-date General Fund tax collections totaled \$971.6 million, an increase of 0.9 percent compared to last year. FY15 year-to-date growth for three major taxes that are collected continuously through the year – wage and earnings, real estate transfer, and parking – are above the currently projected annual rate. Year-to-date growth rates for the business income and receipt tax (BIRT) and net profits tax are below projected FY15 growth; however, because collections of these taxes occur primarily in the spring, collections to date do not indicate likely performance for the entire year. Year-to-date sales tax collections are 33.1 percent below the FY14 level, reflecting the allocation of revenue to SDP.

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 shift of a portion of the tax to SDP, and a projected \$8.5 million decline in BIRT receipts. The BIRT decline reflects an estimated reduction of \$21 million due to tax reform, including exemption of the first \$100,000 in receipts from the gross receipts tax and single sales factor apportionment for the net income tax. This revenue loss is projected to be partially offset by tax base growth of 3.0 percent.

Figures 1 and 2 present estimated quarterly changes since FY09 in the wage and earnings 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 continued its upward trend by increasing 6.4 percent in the second quarter. 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

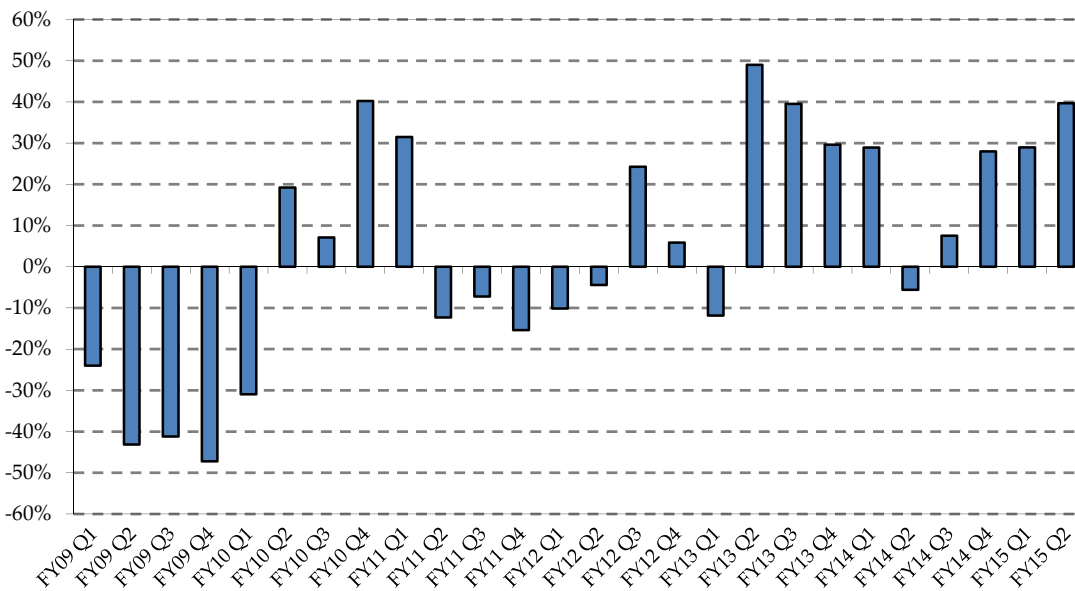


Source: PICA staff estimates. The estimated tax base equals revenues divided by the tax rate in effect in each period. Revenue data are from *Comparative Statement of Net Revenue Collections*, City of Philadelphia Department of Revenue.

¹ Includes City and PICA portion.

As shown in Figure 2, the real estate transfer tax base increased an estimated 29.0 percent in the first quarter of FY15 and continued its upward trend in the second quarter, increasing 39.7 percent. 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 2: 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 Tax Revenues:
FY15 versus FY14 (\$ in Millions)**

Tax	Monthly Total through December			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	\$780.7	\$824.7	5.6%	\$1,634.7	\$1,695.5	3.7%	1.9%
<i>Wage</i>	776.6	820.7	5.7%				
<i>Earnings</i>	4.1	4.0	-2.6%				
Net Profits²	3.8	2.8	-24.9%	27.6	31.9	15.6%	-40.4%
Real Estate	48.6	50.9	4.6%	526.4	547.4	4.0%	.6%
Business Income and Receipts	50.3	35.3	-29.8%	461.7	453.2	-1.8%	-28.0%
Sales	131.5	88.0	-33.1%	263.1	152.7	-41.9%	8.8%
Real Estate Transfer	64.8	103.0	34.0%	168.1	184.3	9.7%	24.3%
Parking	37.5	38.7	3.1%	75.2	76.9	2.3%	0.8%
Amusement	9.9	9.9	0.2%	20.0	20.4	2.0%	-1.8%
Other	1.5	1.4	-7.1%	3.7	3.5	-6.5%	-0.7%
Total	1,140.7	1,154.7	1.2%	3,180.4	3,165.7	-0.5%	1.7%
<i>PICA</i>	177.7	183.1	3.0%	384.5	398.3	3.6%	0.6%
<i>City</i>	963.0	971.6	0.9%	2,795.9	2,767.4	-1.0%	1.9%

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.