

Pennsylvania Intergovernmental Cooperation Authority

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Monthly City of Philadelphia Tax Revenue Update
September 2009

Tax revenue collections through September 2009 indicate continuing declines in some of the City's major tax revenue sources. Wage Tax revenues declined 4.6 percent in the first quarter of FY10 compared to the prior year, taking into account the impact of rate changes. Sales Tax revenues declined 8.5 percent in the first quarter of FY10, compared to the first quarter of FY09, the largest quarterly decline of the recession for this tax. Realty Transfer Tax revenues declined by 31.0 percent in the first quarter compared to the prior year, although this decline is smaller than the decline of over 40 percent during each of the final three quarters of FY09. Total tax collections through the first quarter of FY10 were down by 7.4 percent compared to the first quarter of FY09.

The downward trend in the major tax bases continues to raise concerns about the effect of the recession on City finances, though these trends are not yet inconsistent with the City's FY10 budget assumptions. While Wage and Sales Tax collections are down 2.8% relative to the budgeted figures, other tax collections are on pace or higher than budgeted. Excluding the Sales Tax (which is projected to increase 68.2 percent in FY10 due to a rate increase) total General Fund tax revenues are projected to increase only 1.0 percent from FY09 to FY10. Realty Transfer Tax collections to date are nearly one-third of the full-year FY10 projection. Further, the comparison through September highlights performance against the last strong quarter of tax collections prior to the recession (the first quarter of FY09); year-over-year comparisons should be more instructive in the remaining months of FY10.

Year-over-Year Percentage Growth by Quarter¹

Tax	FY09				FY10
	Q1	Q2	Q3	Q4	Q1
Wage, Earnings, and Net Profits ²	5.5	2.5	(0.8)	(2.3)	(4.6)
Realty Transfer	(24.0)	(43.1)	(41.2)	(47.2)	(31.0)
Sales	2.1	(5.8)	(5.3)	(7.1)	(8.5)
Parking ²	(5.4)	(4.3)	5.4	(22.6)	9.4
Amusement	(3.7)	54.6	20.4	17.5	6.6

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 rate adjusted for tax rate change.

- Collections of the City portion of the Wage, Earnings, and Net Profits taxes in September were \$76.1 million. Collections through the first three months of FY10 totaled \$271.7 million, a decline of 5.7 percent from the same period in FY09. After adjusting for changes in tax rates, total collections in the first quarter of FY10 suggest an approximate 4.6 percent decline in the tax base over the prior fiscal year. Recent declines of 0.8 percent and 2.3 percent, in the third and fourth quarters of FY09, respectively, were comparatively modest. The City's FY10 Wage Tax projection in the FY10-FY14 Five-Year Plan is \$1,172.4 million, an increase of 2.9 percent over FY09. To achieve this increase, the collection patterns for the Wage Tax must begin to turn around rapidly.
- Realty Transfer Tax (RTT) collections continue to decline rapidly, but at a less rapid pace than in FY09. RTT collections in September were \$9.8 million, bringing the total for the first quarter of FY10 to \$30.4 million, a decline of 31.0 percent over the first quarter of FY09. This compares to year-over-year declines ranging from 41 to 47 percent in the final three quarters of FY09. The current Five-Year Plan projects that the trend in RTT revenue will be much improved in FY10, with total FY10 RTT revenue projected at \$94.7 million, a decline of 14.3 percent from FY09.
- Sales Tax collections in September were \$9.9 million. Total collections for the first quarter of FY10 are \$31.8 million, a decline of 8.5 percent from the first quarter of FY09. This decline is larger than the 7.1 percent decline between the fourth quarter of FY08 and the fourth quarter of FY09, indicating a continued downward trend in retail sales in the city. The FY10-FY14 Five-Year Plan projection for Sales Tax revenue in FY10 is \$215.3 million, a 68.2 percent increase over FY09. The FY10 Sales Tax projection has been revised downward by \$19.4 million to reflect a two-month delay in implementation of the planned increase in the City Sales Tax rate from 1 to 2 percent. Act 44, the State law authorizing the increase in the City Sales Tax rate, became law on September 18, and the new tax rate was implemented on October 8.
- Real Estate Tax collections in September were \$5.2 million, bringing the year-to-date total to \$18.0 million, a 20.1 percent decline from FY09. The Revised FY10-14 Plan projects \$412.7 million in Real Estate Tax revenue in FY10, an increase of 2.0 percent over the FY09 level. Monthly collections are highly variable during months other than March and April when most revenue from this tax is collected. The increase primarily reflects projected growth in delinquent tax collections.

- Business Privilege Tax (BPT) collections were \$8.5 million in September, bringing the year-to-date total to \$21.7 million, which is an increase of 22.3 percent over the first quarter of FY10. However, monthly BPT collections are highly variable during months other than April and May, when most revenue from this tax is collected. Therefore, collections through September give little indication of the likely results for FY10. The Revised Five-Year Plan projects FY10 BPT revenues of \$356.7 million, a decline of 2.5 percent from FY09.
- Parking Tax collections were \$5.6 million in September, bringing the total for the first quarter of FY10 to \$18.0 million, an increase of 9.4 percent over the first quarter of FY09. The FY10-FY14 Five-Year Plan projects FY10 Parking Tax revenue of \$70.7 million, an increase of 2.5 percent from FY09.
- September Amusement Tax collections were \$1.3 million. FY10 year-to-date collections are \$5.6 million, an increase of 6.6 percent over the first quarter of FY09. The Five-Year Plan projects FY10 Amusement Tax collections of \$20.9 million, an increase of 13.4 percent from FY09.

Fiscal Year 2010 General Fund Tax Collections through September 2009

Dollars in Millions

Tax	FY10 through September (Preliminary)	FY09 through September	Percent Change through September	Revised FY10-FY14 Five-Year Plan Projection for FY10 ¹	Percent Change from FY09 Actual to FY10 Projection
Wage, Earnings, and Net Profits ²	\$271.7	\$288.3	-5.7%	\$1,172.4	2.9%
Real Estate	18.0	22.5	-20.1%	412.7	2.0%
Business Privilege	21.7	17.7	22.3%	356.7	-2.5%
Sales ³	31.8	34.7	-8.5%	215.3	68.2%
Realty Transfer	30.4	44.1	-31.0%	94.7	-14.3%
Parking	18.0	16.4	9.4%	70.7	2.5%
Amusement	5.6	5.3	6.6%	20.9	13.4%
Other	0.9	0.9	-0.8%	3.0	4.8%
Total Taxes ⁴	398.1	429.9	-7.4%	2,346.5	4.8%

Notes:

¹ Projections from the Revised FY10-FY14 Five-Year Financial Plan approved by PICA on September 11, 2009.

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.

⁴ 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 1.0 percent from FY09 to FY10.