



April 8, 2014

City of Philadelphia Tax Revenue Update for March 2014

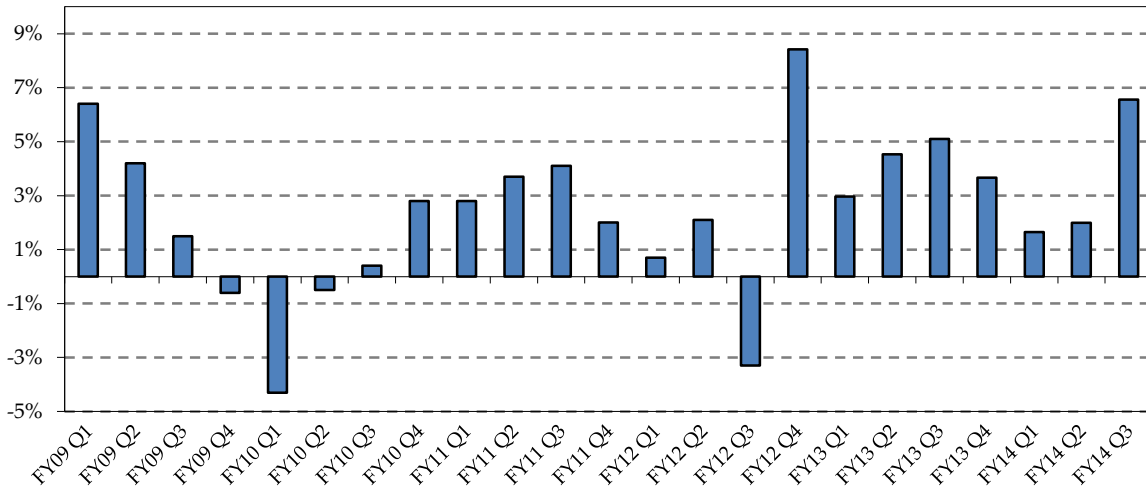
Strong third quarter for wage tax, while sales and real estate transfer tax collections increase modestly compared to last year

City General Fund tax collections totaled \$313.6 million in March, according to the City's preliminary revenue report, an increase of \$43.6 million (16.2 percent) from March 2013. Collections through the first three quarters of FY14 totaled \$1,941.9 million, an increase of \$65.5 million (3.5 percent) as compared to the same period in FY13. The growth through March represents increases in wage, earnings and net profits (\$33.7 million), business income and receipts (\$22.5 million), real estate transfer (\$9.8 million), sales (\$6.4 million), amusement (\$3.0 million), and parking taxes (\$1.4 million), offset by a decline in real estate taxes of \$11.4 million.

Overall FY14 General Fund tax revenue is currently projected at \$2,779.7 million, a \$17.2 million (0.6 percent) increase from the adopted budget, and a \$46.3 million (1.7 percent) increase from FY13 actual revenue. With the exception of the real estate tax, the collection patterns through March are generally in line with current projections; year-to-date growth rates for all major taxes except real estate are at or above currently projected growth for the full fiscal year. Collections for the real estate tax in FY14 could be impacted by the delay in processing real estate appeals by the Board of Revision of Taxes. It should also be noted that collections through the first three quarters of the two major business taxes – the business income and receipts and net profits taxes – do not provide a strong indication of likely collections for the full year, since revenue from these sources is received primarily in March, April and May.

Figures 1 through 3 present quarterly changes since FY09 in the tax base of the wage and earnings, sales, and real estate transfer taxes. 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 6.6 percent in the third quarter of FY14, higher than the estimated 2.0 percent in the second quarter, and the largest quarterly growth rate since the fourth quarter of FY12.

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

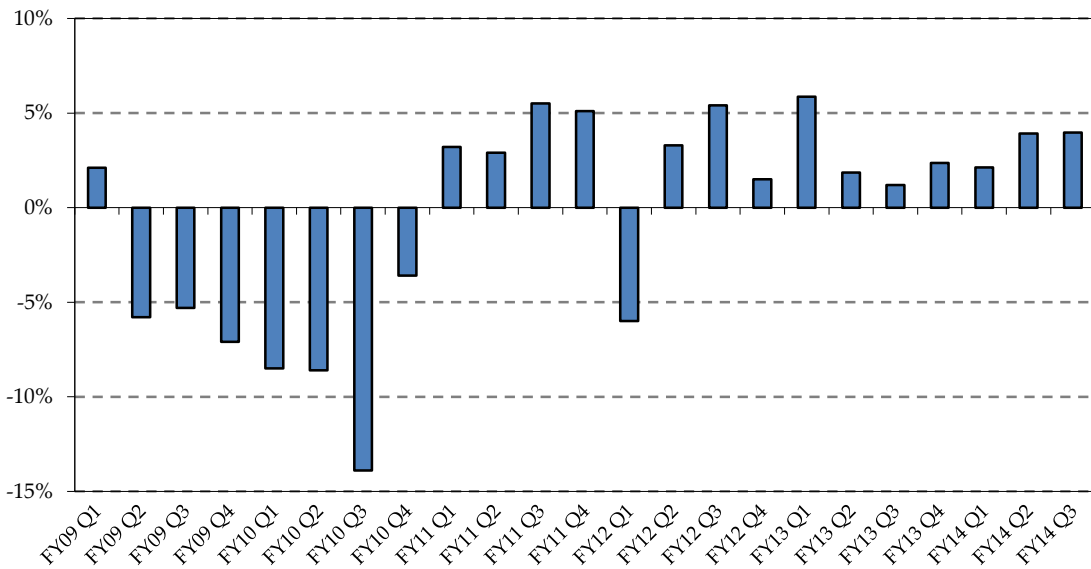


Source: PICA staff estimates. The estimated tax base equals revenues divided by the tax rate in effect in each period. Revenue data are from *Comparative Statement of Net Revenue Collections*, City of Philadelphia Department of Revenue.

¹ Includes City and PICA portion.

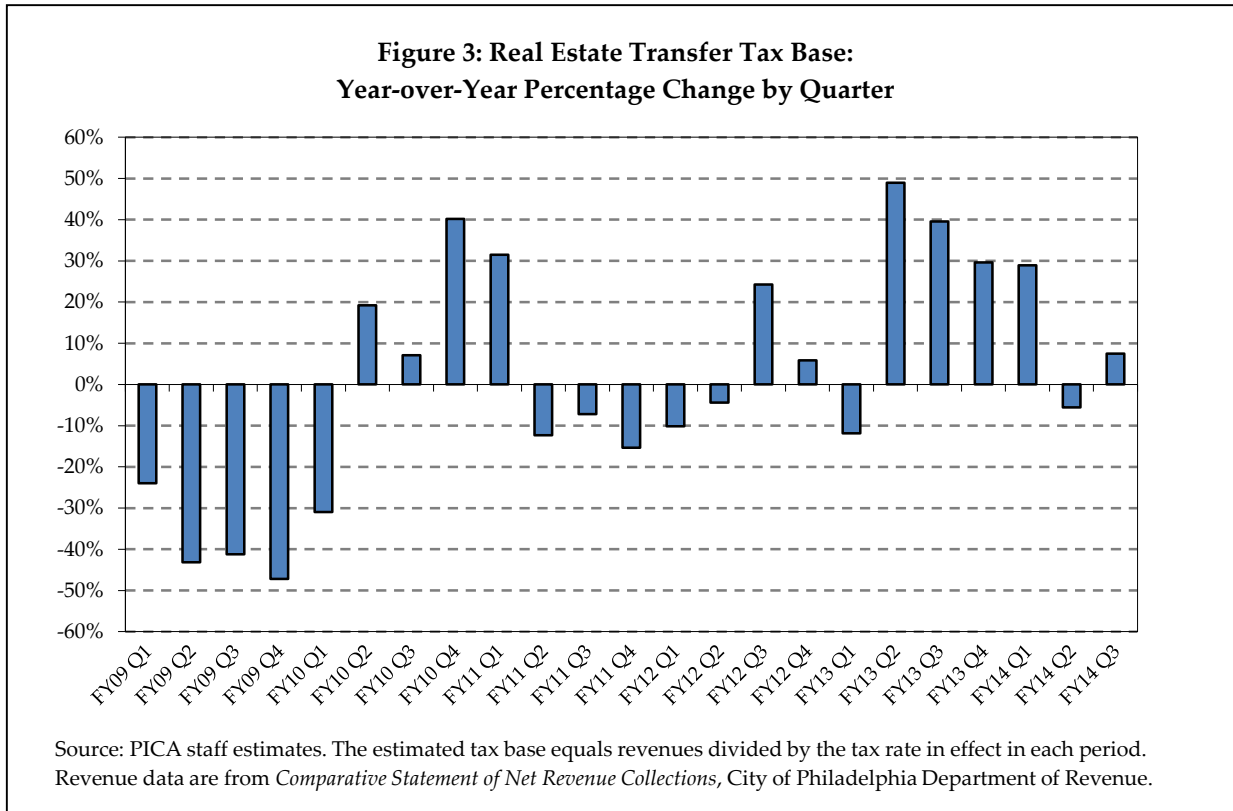
Quarterly growth trends for the sales tax base are shown in Figure 2. The figures indicate the growth in the level of taxable retail sales in the city. This tax base increased 4.0 percent in the third quarter of FY14, slightly higher than the 3.9 percent growth in the second quarter, and higher than the 3.2 percent growth projected for the full fiscal year. The sales tax base has increased in 14 out of 15 quarters since the fourth quarter of FY10, indicating the steady recovery in retail sales activity in the city. However, the estimated retail sales of \$9.92 billion through the first three quarters of FY14 remains below the pre-recession peak of \$10.25 billion during the same period in FY08.

**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.

Figure 3 presents quarterly trends in the real estate transfer tax base since FY09. For this tax base, quarterly changes have been significant, ranging from declines of over 40 percent in FY09 to increases of more than 30 percent in FY13. The tax base increased 7.5 percent in the third quarter of FY14.



Trends in individual taxes are described below.¹

- Wage and earnings tax collections (including the City and PICA portion) totaled \$137.1 million in March, an increase of \$9.2 million (7.2 percent) from March 2013. Collections through the first three quarters of FY14 increased 3.4 percent over the same period in FY13. The current FY14 estimate is \$1,612.9 million, a 1.7 percent increase from FY13.²

¹ Business income and receipts and net profits taxes are collected primarily from March through May. For these taxes, the overall strength of collections cannot be assessed until after these periods are complete. Accordingly, collection trends for these taxes are not discussed in detail, although the amounts collected are shown in Table 1.

² Monthly collections for all taxes can fluctuate due to random factors, so that revenue for any given month or quarter is not always indicative of the likely overall trend for the fiscal year. The wage tax in particular is susceptible to random influences, mostly relating to the timing of receipts. For this reason, monthly and quarterly revenue collection figures in this report should be interpreted with caution.

- Real estate tax collections totaled \$111.9 million in March, an increase of \$21.2 million (23.4 percent) from March 2013. Collections through the first three quarters of FY14 declined 2.3 percent compared to the same period in FY13. The current FY14 estimate is \$533.2 million, a 1.4 percent decline from FY13.
- March sales tax collections were \$19.6 million, an increase of \$0.3 million (1.6 percent) compared to March 2013. Collections through the first three quarters of FY14 increased 3.3 percent over the same period last year. The current FY14 estimate is \$265.9 million, an increase of 3.2 percent from FY13.
- Real estate transfer tax collections were \$17.5 million in March, an increase of \$2.0 million (12.8 percent) compared to March 2013. Collections through the first three quarters increased 9.2 percent compared to FY13. The current FY14 projection is \$160.5 million, an 8.5 percent increase from FY13.
- Parking tax collections were \$6.0 million in March, an increase of \$0.1 million (2.4 percent) from the same month last year. Collections through the first three quarters of FY14 increased 2.5 percent compared to the same period in FY13. The current FY14 projection is \$75.0 million, a 2.4 percent increase from FY13.

**Table 1: City of Philadelphia General Fund Tax Revenues:
FY14 versus FY13 (\$ in Millions)**

Tax	Monthly Total through March			Fiscal Year Total (Budget Basis)			Change To Date Above/ (Below) Estimated Fiscal Year Change
	FY13	FY14 ¹	Percent Change	FY13 Actual	FY14 Current Estimate	Percent Change	
Wage and Earnings²	\$1,179.3	\$1,219.1	3.4%	\$1,586.2	\$1,612.9	1.7%	1.7%
<i>Wage</i>	1,172.1	1,212.0	3.4%				
<i>Earnings</i>	7.3	7.2	-1.5%				
Net Profits²	5.3	6.4	19.1%	30.9	33.3	7.6%	11.5%
Real Estate	504.5	493.1	-2.3%	540.5	533.2	-1.4%	(0.9%)
Business Income and Receipts	93.0	115.5	24.2%	450.9	461.3	2.3%	21.9%
Sales	192.0	198.3	3.3%	257.5	265.9	3.2%	0.1%
Real Estate Transfer	107.1	116.9	9.2%	148.0	160.5	8.5%	0.7%
Parking	54.0	55.4	2.5%	73.3	75.0	2.4%	0.2%
Amusement	10.2	13.3	29.8%	19.1	20.5	7.3%	22.5%
Other	2.7	2.7	0.0%	3.5	3.4	-1.3%	1.3%
Total	2,148.2	2,220.8	3.4%	3,109.9	3,166.0	1.8%	1.6%
<i>PICA</i>	271.8	278.9	2.6%	376.5	386.3	2.6%	--
<i>City</i>	1,876.4	1,941.9	3.5%	2,733.5	2,779.7	1.7%	1.8%

Source: Monthly collections from *Comparative Statement of Net Revenue Collections*, City Department of Revenue, available at <http://www.phila.gov/Revenue/aboutus/Pages/ReportsandPublications.aspx>, and preliminary report for March 2014. FY13 actual from *Supplemental Report of Revenues and Obligations*. Current estimate for FY14 from *Five-Year Financial and Strategic Plan for Fiscal Years 2015-2019*, issued March 6, 2014.

Notes:

¹ Amounts are preliminary.

² Includes portion dedicated to PICA.

Table 2: City of Philadelphia General Fund Tax Revenues FY14 Adopted Budget versus Current Estimate (\$ in Millions)				
Tax	Adopted Budget	Current Estimate	Current Estimate Above/(Below) Adopted Budget	
			Amount	Percent
Wage and Earnings¹	\$1,656.6	\$1,612.9	(\$43.6)	(2.6%)
Net Profits¹	21.4	33.3	12.0	56.0%
Real Estate	536.6	533.2	(3.4)	(0.6%)
Business Income and Receipts	410.0	461.3	51.3	12.5%
Sales	272.6	265.9	(6.7)	(2.4%)
Real Estate Transfer	157.6	160.5	2.9	1.8%
Parking	75.0	75.0	--	--
Amusement	20.5	20.5	--	--
Other	3.4	3.4	--	--
Total	3,153.6	3,166.0	12.4	0.4%
<i>PICA</i>	391.0	386.3	(4.7)	(1.2%)
<i>City</i>	2,762.6	2,779.7	17.2	0.6%

Source: Adopted budget amounts from *Mayor's Operating Budget in Brief for Fiscal Year 2014*.
Current estimates from proposed *Five-Year Financial and Strategic Plan for Fiscal Years 2015-2019*,
issued March 6, 2014.

Note:

¹ Includes portion dedicated to PICA.