

Pennsylvania Intergovernmental Cooperation Authority

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Monthly City of Philadelphia Tax Revenue Update

December 2009

City General Fund tax collections in December were \$143.1 million, an increase of 2.3 percent compared to the December 2008 level. Collections for the first six months of FY10 were \$793.1 million, 5.0 percent below revenues received during the same period in FY09. The increase in overall December tax revenues reflected a \$6.0 million increase in Sales Tax revenue due to the increase in the City Sales Tax rate from 1 to 2 percent. This rate increase became effective October 8 and first began to impact General Fund revenues in December. Excluding Sales Tax revenue, overall General Fund tax revenues declined 2.1 percent in December compared to the prior year. However, December collections indicate a movement toward stabilization in the Wage Tax base and growth in the Real Estate Transfer Tax base.

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

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

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 \$84.8 million in December, a decrease of 2.9 percent from the December 2008 collection level. Collections for the second quarter of FY10 were down 2.3 percent compared to the second quarter of FY09. After taking into account tax rate changes, the tax base for these taxes declined approximately 1.1 percent in the second quarter of FY10 compared to the prior year, a smaller decline than the 4.6 percent decline in the first quarter. The second quarter

results suggest a trend toward stabilization in the Wage Tax base, which includes the earned income of city residents and non-residents who work in the city. The Wage, Earnings, and Net Profits taxes represent 55.6 percent of projected FY10 General Fund tax-related revenue when the portion of these taxes dedicated to PICA is included; the stabilization of the Wage Tax base is essential for the City's financial stability. The Revised Five-Year Plan (FYP) projects Wage Tax collections of \$1,172.4 million in FY10, an increase of 3.8 percent over the FY09 actual amount. Due to the weaker than expected Wage Tax collections to date, however, the *Quarterly City Managers Report (QCMR)* for the first quarter of FY10 projects Wage Tax revenues of \$1,131.4 million in FY10, a reduction of \$41 million from the Plan.

- Real Estate Transfer Tax (RETT) collections were \$12.6 million in December, an increase of 41.4 percent over the same month last year. This was the second consecutive month in which RETT revenues exceeded the prior year's level for the same month. Collections for the second quarter of FY10 were \$30.5 million, an increase of 19.2 percent over the second quarter of FY09. RETT collections are showing considerable improvement compared to FY09, reflecting stabilizing residential real estate values and increases in the number of residential real estate transactions. Total collections for the first six months of FY10 were \$61.0 million, a decline of 12.5 percent over the same period in FY09. The FYP projects \$94.7 million in RETT revenue in FY10, a decline of 17.7 percent from the FY09 actual amount. However, the *QCMR* for the first quarter of FY10 projects FY10 RETT revenue at \$114.7 million, which is down only 0.3 percent compared to FY09.
- Sales Tax collections in December were \$15.5 million, an increase of 63.0 percent compared to December 2008. This increase reflects the higher Sales Tax rate, which increased from 1 to 2 percent effective October 8. (There is a lag between the time when taxable retail sales occur and the time the City receives revenue from the Sales Tax, in part because the State collects the City and State portion of the tax from businesses and remits the City portion to the City in one payment each month.) Total collections for the first six months of FY10 are \$67.3 million, an increase of 1.7 percent over the same period in FY09. The FYP projection for Sales Tax revenue in FY10 is \$215.3 million, a 67.9 percent increase over FY09. Collections for the second quarter of FY10, after adjusting for the rate change, suggest an 8.6 percent year-over-year decline in taxable retail sales in the second quarter, which is roughly consistent with the first quarter's decline of 8.5 percent.

- Real Estate Tax (RET) collections in December were \$13.5 million, bringing the total through the first half of the fiscal year to \$39.1 million, a 10.4 percent decline compared to the same period in FY09. However, monthly collections for this tax are highly variable during months other than March and April when most RET revenue is received, so year-to-date collections do not indicate likely collections for FY10. The FYP projects \$412.7 million in RET revenue in FY10, an increase of 3.2 percent over the FY09 actual. This projected increase primarily reflects projected growth in delinquent collections.
- Business Privilege Tax (BPT) revenues were \$8.8 million in December. The FY10 total through December is \$31.5 million, a decline of 20.4 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 FYP projects FY10 BPT revenue of \$356.7 million, a decline of 7.6 percent from FY09 actual revenue.
- Parking Tax collections in the second quarter of FY10 were \$17.2 million, an increase of 6.6 percent over the same period in FY09. Collections for this tax were \$5.7 million in December, bringing the total for the first six months of the fiscal year to \$35.4 million, an increase of 8.0 percent over the same period in FY09. The FYP projects FY10 Parking Tax revenue of \$70.7 million, an increase of 0.5 percent from FY09 actual collections.
- December Amusement Tax collections were \$1.9 million. FY10 collections through December are \$11.1 million, a decrease of 5.0 percent compared to collections in the first six months of FY09. FYP 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 December 2009

Dollars in Millions

Tax	FY10 through December (Preliminary)	FY09 through December	Percent Change through December	Revised Five-Year Plan Projection for FY10 ¹	Percent Change from FY09 Actual to FY10 Plan Projection
Wage, Earnings, and Net Profits ²	\$545.7	\$568.6	-4.0%	\$1,172.4	3.8%
Real Estate	39.1	43.7	-10.4%	412.7	3.2%
Business Privilege	31.5	39.6	-20.4%	356.7	-7.6%
Sales ³	67.3	66.2	1.7%	215.3	67.9%
Realty Transfer	61.0	69.7	-12.5%	94.7	-17.7%
Parking	35.4	32.8	8.0%	70.7	0.5%
Amusement	11.1	11.7	-5.0%	20.9	-2.3%
Other	1.8	2.1	-14.0%	3.0	24.7%
Total Taxes ⁴	793.1	834.5	-5.0%	2,346.5	4.2%

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 0.3 percent from FY09 to FY10.